



PROSPECTUS DATED 22 NOVEMBER 2006



Hsu Fu Chi International Limited

(Incorporated as an exempted company in the Cayman Islands on 18 October 2006, registration number: CT-175834)

This document is important. If you are in any doubt as to the action you should take, you should consult your legal, financial, tax or other professional adviser.

This is the initial public offering of ordinary shares of S\$0.01 (the "Shares") each in Hsu Fu Chi International Limited (the "Company"). The Company is issuing and making an offering (the "Invitation") of 125,000,000 Shares (the "New Shares" or the "Invitation Shares") for subscription by investors at the Final Price (as defined herein). The Invitation consists of (i) an international placement (the "Placement") to investors, including qualified institutional buyers in the United States and institutional and other investors outside of the United States, including Singapore, and including up to 12,500,000 Invitation Shares which will be reserved for (a) the directors of the Company, (b) non-executive directors of the Group, (c) employees of the Group and (d) others who have contributed to the Group's success and development (the "Reserved Shares"), and (ii) a public offer in Singapore (the "Public Offer").

The offering price per Invitation Share (the "Final Price") will not be more than S\$0.85 (the "Maximum Offering Price").

Prior to the Invitation, there was no public market for the Shares. Application has been made to the Singapore Exchange Securities Trading Limited (the "SGX-ST") for permission to list all the issued Shares and the New Shares on the Main Board of the SGX-ST. Such permission will be granted when the Company has been admitted to the Official List of the SGX-ST. Acceptance of applications for the Invitation Shares will be conditional upon, among others, permission being granted to deal in and for quotation of all the issued Shares and the New Shares. Monies paid in respect of any application accepted will be returned to investors, at their own risk, without interest or any share of revenue or other benefit arising therefrom, if the Invitation is not completed because the said permission is not granted or for any other reason, and investors will not have any right or claim against the Company, Cazenove & Co. (Singapore) Pte. Limited (in its capacity as the Sole Global Coordinator, Sole Bookrunner, Sole Sponsor, Lead Manager and Underwriter in relation to the Invitation, and in such capacity, defined herein as "Cazenove"), any sub-underwriter or any sub-placement agent.

The Company has received a letter of eligibility from the SGX-ST for the listing and quotation of the issued Shares and the New Shares in accordance with its application to the SGX-ST.

The SGX-ST assumes no responsibility for the correctness of any statements or opinions made or reports contained in this prospectus (the "Prospectus"). The Company's eligibility-to-list and admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Invitation, the Company, its subsidiaries or the Shares.

A copy of this Prospectus has been lodged with and registered by the Monetary Authority of Singapore (the "Authority" or the "MAS") on 30 October 2006 and 22 November 2006, respectively. The Authority assumes no responsibility for the contents of this Prospectus. Registration of this Prospectus by the Authority does not imply that the Securities and Futures Act, Chapter 289 of Singapore (the "Securities and Futures Act" or "SFA"), or any other legal or regulatory requirements, have been complied with. The Authority has not, in any way, considered the merits of the Invitation Shares being offered for investment.

No Shares shall be allotted or allocated on the basis of this Prospectus later than six months after the date of registration of this Prospectus by the Authority.

Investing in the Shares involves risks. See "Risk Factors" of this Prospectus for a discussion of certain factors to be considered in connection with an investment in the Invitation Shares.

The Maximum Offering Price of S\$0.85 is payable in full on application under the Public Offer and for applications for the Reserved Shares, subject to refund if and to the extent the Final Price is less than the Maximum Offering Price. Investors applying for Shares under the Placement (save for the Reserved Shares) are required to pay the Final Price. The Final Price will be determined following a book-building process by agreement between Cazenove and the Company on a date currently expected to be 27 November 2006 (the "Price Determination Date"), which date is subject to change. If for any reason the Final Price is not agreed between Cazenove and the Company, the Invitation will not proceed. Notice of the Final Price will be published in one or more major Singapore newspapers such as *The Straits Times*, *The Business Times* and *Lianhe Zaobao* not more than two calendar days after the Price Determination Date.

The Invitation Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act ("Regulation S")). The Invitation Shares are being offered and sold outside the United States to non-U.S. persons (including institutional and other investors in Singapore) in reliance on Regulation S and within the United States to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act ("Rule 144A"). Prospective purchasers are hereby notified that sellers of the Invitation Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Invitation Shares offered hereby are not transferable except in accordance with the restrictions described under "Transfer Restrictions" of this Prospectus.

References in this Prospectus to "hereof", "herein" or this "document" should be construed as being references to the Prospectus lodged with and registered by the MAS on 30 October 2006 and 22 November 2006 respectively.

All copies of this Prospectus distributed in Singapore must be accompanied by the Instructions booklet entitled "Terms, Conditions and Procedures for Application and Acceptance", which constitutes part of this Prospectus registered with the Authority.

**Invitation in respect of 125,000,000 Invitation Shares
The size of the Public Offer is 10,000,000 Invitation Shares
Maximum Offering Price: S\$0.85 per Invitation Share**

Sole Global Coordinator, Sole Bookrunner, Sole Sponsor, Lead Manager and Underwriter

CAZENOVE



HSU FU CHI: A Popular Brand in the PRC’s Confectionery Market

Founded in 1992, Hsu Fu Chi International Limited is today a leading confectionery group in the People’s Republic of China (“PRC”).

We market a diverse range of our own manufactured confectionery products under three key categories:

- Candy products
- Cake and Cookie products
- Sachima products

We generate sales in the PRC through an extensive sales network and our strong branding.

Our products are mainly sold in the PRC under our primary brand “徐福記” (Hsu Fu Chi) and secondary brands (including “DoDo,” “Chaobii” and “磨堡” (Mo Bao)), and distributed through more than 13,000 retail points of varying sizes ranging from small kiosks to hypermarkets.

Our extensive sales network comprises 56 sales offices located across most of the PRC, which are controlled by the Sales Headquarters in Dongguan.

Our 120 production lines are equipped with modern machinery imported from countries such as Germany and Japan, with a total productive capacity of approximately 176,000 tonnes per annum.



Competitive Strengths

Sales Headquarters Overseeing Extensive Sales Network

- Extensive sales network consisting of 56 operating sales offices across most of the PRC, and more than 13,000 directly-controlled retail points, and supported by more than 4,000 sales personnel.
- Sales Headquarters oversees sales and distribution operations and formulates sales plan.

Popular Brand “徐福記” Enhanced by Brand Management

- Our brand “徐福記” is a popular brand for confectionery products in the PRC.
- Awards and certifications relating to our product quality and strong branding.

Strong Customer Relationships

Established strong relationships with certain modern sales channel customers including Carrefour, RT-Mart, Trustmart, Wal-Mart, Lotus and Metro.

Product Development Capabilities

- Product development plan is revised and updated annually.
- Plans to manufacture new products or discontinue non-performing products are based on market feedback and consumer trends, analysis of product sales performance, and know-how of manufacturing processes and ingredient suppliers.

Production Capabilities

- Modern equipment imported from countries such as Germany and Japan, some of which are made to specification.
- Accredited with ISO 9001-2000 certification in 2002 and HACCP certification in 2004.

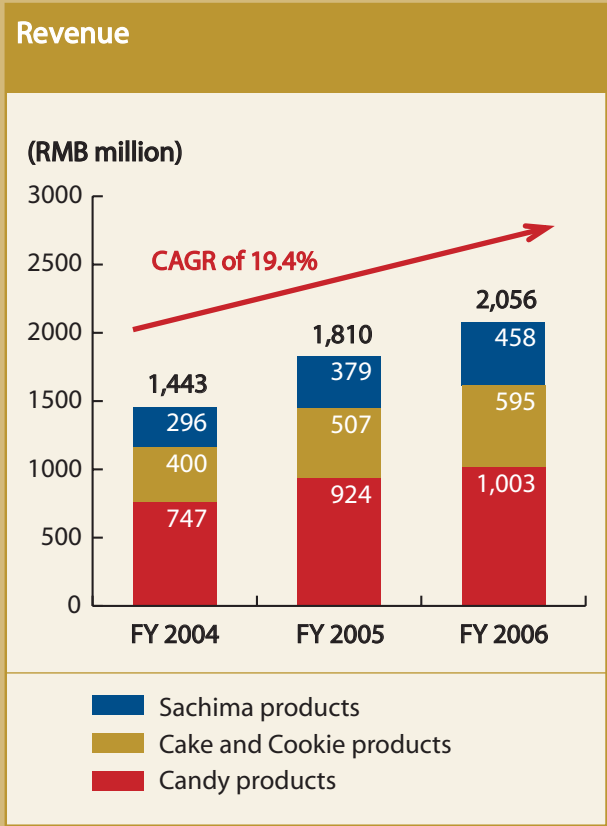
Wide Range of Quality Confectionery Products

- More than 400 attractively packaged products catering to the changing taste buds of consumers across different regions.
- Individual packaging enables consumers to buy a wide variety on each purchase, and keeps the products fresh for a longer period of time.

Experienced Management Team

- Certain key executives in top management has more than 20 years each in the confectionery industry in the PRC, supported by 386 managers and supervisors as of 30 June 2006.

Financial Highlights



CONTENTS

NOTICE TO INVESTORS	1	MANAGEMENT'S DISCUSSION AND ANALYSIS	
CORPORATE INFORMATION	4	OF FINANCIAL CONDITION AND RESULTS OF	
DEFINITIONS	7	OPERATIONS	107
SPECIAL NOTE REGARDING FORWARD LOOKING		DIRECTORS AND EXECUTIVE OFFICERS	125
STATEMENTS	16	CORPORATE GOVERNANCE	133
TAKE-OVERS	18	INTERESTED PERSON TRANSACTIONS AND	
PURCHASE BY THE COMPANY OF ITS OWN		POTENTIAL CONFLICTS OF INTERESTS	135
SHARES	20	DESCRIPTION OF THE SHARES	139
ATTENDANCE AT GENERAL MEETINGS	21	EXCHANGE CONTROLS	144
SELLING RESTRICTIONS	22	TAXATION	145
TRANSFER RESTRICTIONS	26	CLEARANCE AND SETTLEMENT	151
DETAILS OF THE INVITATION	27	GENERAL AND STATUTORY INFORMATION ...	152
INDICATIVE TIMETABLE FOR LISTING	30	AUDITED COMBINED FINANCIAL STATEMENTS	
PLAN OF DISTRIBUTION	32	OF HSU FU CHI INTERNATIONAL LIMITED	
PROSPECTUS SUMMARY	34	FOR YEARS ENDED 30 JUNE 2004, 2005 AND	
EXCHANGE RATES	41	2006	F-1
RISK FACTORS	42	APPENDIX A SUMMARY OF MEMORANDUM OF	
INVITATION STATISTICS	51	ASSOCIATION AND SELECTED ARTICLES OF	
USE OF PROCEEDS	52	THE COMPANY	A-1
DIVIDEND POLICY	54	APPENDIX B SUMMARY OF CAYMAN ISLANDS	
SHARE CAPITAL	55	COMPANY LAW	B-1
SHAREHOLDERS	57	APPENDIX C SUMMARY OF RELEVANT PRC	
CAPITALISATION AND INDEBTEDNESS	60	LAWS AND REGULATIONS	C-1
DILUTION	61	APPENDIX D COMPARISON OF CAYMAN	
RESTRUCTURING EXERCISE	62	ISLANDS COMPANY LAW WITH SINGAPORE	
GROUP STRUCTURE	63	COMPANY LAW	D-1
INDUSTRY	65	APPENDIX E SUMMARY OF PRINCIPAL	
HISTORY	76	DIFFERENCES BETWEEN SFRS AND	
BUSINESS	77	US GAAP	E-1

NOTICE TO INVESTORS

Investors should rely only on the information contained in this Prospectus. The Company has not authorised anyone to provide investors with information that is different. This document may only be used where it is legal to sell these securities. The information in this Prospectus is only accurate as of the date of this Prospectus.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by the Company or Cazenove. Neither the delivery of this Prospectus nor any offer, sale or transfer made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date hereof or constitute a representation that there has been no change or development reasonably likely to involve a material adverse change in the Company's affairs, conditions and prospects or the Shares since the date hereof. Where such changes occur and are material or required to be disclosed by law, the SGX-ST and/or any other regulatory or supervisory body or agency, the Company will make an announcement of the same to the SGX-ST and, if required, issue and lodge an amendment to this document or a supplementary document or replacement document pursuant to Section 240 or, as the case may be, Section 241, of the Securities and Futures Act, Chapter 289 of Singapore and take immediate steps to comply with such Sections. Investors should take notice of such announcements and documents and, upon release of such announcements or documents, investors shall be deemed to have notice of such changes.

Neither the Company, Cazenove nor any of their respective affiliates, directors, officers, employees, agents, representatives or advisers are making any representation or undertaking to any subscriber of the Shares regarding the legality of an investment by such subscriber under appropriate legal, investment or similar laws. In addition, investors should not construe the contents of this Prospectus as legal, business, financial or tax advice. Investors should be aware that they may be required to bear the financial risks of an investment in the Shares for an indefinite period of time. They should consult their own professional advisers as to the legal, tax, business, financial and related aspects of an investment in the Shares.

For the purpose of the Shares being offered in the United States to "qualified institutional buyers" in reliance on Rule 144A under the U.S. Securities Act, this Prospectus is being furnished in the United States on a confidential basis solely for the purpose of enabling prospective subscribers to consider the subscription for the Shares. Its use for any other purpose in the United States is not authorised. In the United States, it may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents be disclosed to anyone other than the prospective subscribers to whom it is submitted.

The Shares have not been registered with, recommended by or approved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Shares or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

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

The distribution of this Prospectus and the offering, purchase, subscription, sale or transfer of the Shares in certain jurisdictions may be restricted by law. The Company and Cazenove require persons into whose possession this Prospectus comes to inform themselves about and to observe any such restrictions at their own expense and without liability to the Company or Cazenove.

This Prospectus does not constitute an offer of, or an invitation to subscribe for and/or purchase, any of the Shares in any jurisdiction in which such offer or invitation would be unlawful. Persons to whom a copy of this Prospectus has been issued shall not circulate to any other person, reproduce or otherwise distribute this Prospectus or any information herein for any purpose whatsoever nor permit or cause the same to occur.

Notwithstanding anything else to the contrary, each prospective investor (and each employee, representative or other agent of each prospective investor) may disclose to any and all persons, without limitation of any kind, the U.S. Federal income tax treatment and U.S. Federal income tax structure (as such terms are used in Sections 6011, 6111 and 6112 of the Code and the Treasury Regulations promulgated thereunder) of the offering of the

Shares and all materials of any kind (including opinions or other tax analyses) that are provided relating to such tax treatment and tax structure.

To ensure compliance with U.S. Treasury Department Circular 230, investors in the Shares are hereby notified that: (a) any discussion of U.S. Federal tax issues in this document is not intended or written by the Company to be relied upon, and cannot be relied upon by investors in the Shares, for the purpose of avoiding penalties that may be imposed on investors in the Shares under the Code, (b) such discussion is written in connection with the promotion or marketing of the transactions or matters addressed herein by the Company and the dealers, and (c) investors in the Shares should seek advice based on their particular circumstances from their own independent tax advisors. U.S. counsel does not intend to be, and is not, engaged in the promotion or marketing of the transactions or matters described in this Prospectus and no inference to the contrary shall be implied by reason of the U.S. tax discussion set forth herein.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES 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 THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTE 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 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.

Note on Certain Regulatory Issues Related to the United Kingdom

A person may only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (“FSMA”)) received by it in connection with the issue or sale of any notes in circumstances in which Section 21(1) of the FSMA does not apply to the Company.

This communication is directed only at persons who (1) are outside the United Kingdom or (2) have professional experience in matters relating to investments or (3) fall within Article 49(2) (a)–(d) (high net worth companies, unincorporated associations etc.) of the FSMA (Financial Promotion) Order 2001 (all such persons together being referred to as “Relevant Persons”). This communication must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this communication relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

Note on Certain Regulatory Issues Related to Jersey

This Prospectus is not for circulation on the Island of Jersey, and the offer for sale of securities detailed herein may not be purchased by persons resident in Jersey.

Available Information

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

beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the U.S. Securities Act.

Enforceability of Civil Liabilities

The Company is incorporated in the Cayman Islands. All or substantially all of the assets of the Company are located in the PRC. In addition, most of the directors and officers of the Company and certain of the experts named herein reside outside the United States, and all or a substantial portion of the assets of such persons are located outside the United States. As a result, it may be difficult or may not be possible for investors to effect service of process within the United States upon such persons, the Company, or to enforce any of the judgments obtained in the United States courts against these persons or the Company.

Investors of the Shares should be aware that there is uncertainty as to whether the courts of the Cayman Islands or the PRC would (i) enforce judgments obtained in the United States against the Company or its directors and officers predicated upon the civil liability provisions of the U.S. federal or state securities laws or (ii) entertain original actions brought in the Cayman Islands or the PRC against the Company or such persons predicated upon the U.S. federal or state securities laws.

CORPORATE INFORMATION

Board of Directors

: ***Executive Directors***

徐乘 (Hsu, Chen) (Executive Chairman)

胡嘉逊 (Hu, Chia-Hsun)

徐沅 (Hsu, Hang)

徐梗 (Hsu, Keng)

Non-executive Directors

徐恬 (Hsu, Tien)

云惟生 (Hoon Wee Teng, Will)

Independent Directors

林国鸣 (John Lim Kok Min)

林福山 (Lim Hock San)

蓝钦槐 (Lam Khin Khui)

Company Secretaries

: Hazel Chia Luang Chew, FCIS⁽¹⁾

Toh Lei Mui, ACIS⁽¹⁾

Codan Trust Company (Cayman) Limited ⁽²⁾

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Registered Office

: Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Principal Place of Business

东莞徐记食品有限公司

中国广东省东莞市东城区周屋工业区,

邮编 523118

(Dongguan Hsu Chi Food Co., Ltd.

Zhouwu Industrial District,

Dongcheng, Dongguan,

Guangdong, 523118,

PRC)

PRC Headquarters

: 东莞徐记食品有限公司

中国广东省东莞市东城区周屋工业区,

邮编 523118

(Dongguan Hsu Chi Food Co., Ltd.

Zhouwu Industrial District,

Dongcheng, Dongguan,

Guangdong, 523118,

PRC)

Notes:

(1) The appointment of Ms. Hazel Chia Luang Chew and Ms. Toh Lei Mui as Company Secretaries of the Company will take effect upon the listing of the Shares on the SGX-ST.

(2) Codan Trust Company (Cayman) Limited will resign as Company Secretary and be appointed Assistant Company Secretary upon listing of the Shares on the SGX-ST.

Registrar for the Invitation and Singapore Share Transfer Agent	: Lim Associates (Pte) Ltd 10 Collyer Quay #19-08 Ocean Building Singapore 049315
Cayman Islands Share Registrar	: Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Sole Global Coordinator, Sole Bookrunner, Sole Sponsor, Lead Manager and Underwriter in Relation to the Invitation	: Cazenove & Co. (Singapore) Pte. Limited 9 Raffles Place #52-01 Republic Plaza Singapore 048619
Independent Auditors and Reporting Accountants	: Ernst & Young Certified Public Accountants 10 Collyer Quay #21-01 Ocean Building Singapore 049315 Partner in charge: Max Loh Khum Whai (Certified Public Accountant, a member of the Institute of Certified Public Accountants Singapore)
Legal Advisers to the Company as to Singapore Law	: Allen & Gledhill One Marina Boulevard #28-00 Singapore 018989
Legal Advisers to the Company as to PRC Law	: Jingtian & Gongcheng 15 th Floor, The Union Plaza 20 Chaoyangmenwai Dajie Beijing 100020 People's Republic of China
Legal Advisers to the Company as to Cayman Islands Law	: Conyers Dill & Pearman 50 Raffles Place #18-04 Singapore Land Tower Singapore 048623
Legal Advisers to the Sole Global Coordinator, Sole Bookrunner, Sole Sponsor, Lead Manager and Underwriter in Relation to the Invitation as to Singapore Law	: Stamford Law Corporation 9 Raffles Place #32-00 Republic Plaza Singapore 048619
Legal Advisers to the Sole Global Coordinator, Sole Bookrunner, Sole Sponsor, Lead Manager and Underwriter in Relation to the Invitation as to United States Federal Law	: Jones Day 29/F, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong

Principal Bankers

: 中国工商银行东莞市东城支行
中国广东省东莞市东城中路御景大厦首层
Industrial and Commercial Bank of China (Dongguan City Dongcheng Branch)
1/F Yujing Building
Dongcheng Da Dao,
Dongguan City
Guangdong, PRC

中国银行东莞石碣分行
中国广东省东莞市石碣镇东风南路3号
Bank of China Limited (Dongguan Shijie sub-branch)
3 Dongfeng South Road,
Shijie Town,
Dongguan City
Guangdong, PRC

中国建设银行石碣分行
中国广东省东莞市石碣镇东风南路2号
China Construction Bank (Dongguan Shijie sub-branch)
2 Xinfeng Mid Road,
Shijie Town,
Dongguan City
Guangdong, PRC

交通银行东莞分行
中国广东省东莞市旗峰路190号
Bank of Communications (Dongguan Branch)
190 Qifeng Road
Dongguan City
Guangdong, PRC

Receiving Bank

: DBS Bank Ltd
6 Shenton Way
DBS Building Tower One
Singapore 068809

DEFINITIONS

In this Prospectus and the accompanying Application Forms, the following definitions apply where the context so admits:-

Group Companies

“Chengdu Hsu Chi”	: 成都徐记食品有限公司 (Chengdu Hsu Chi Food Co., Ltd)
“Company”	: Hsu Fu Chi International Limited
“Dongguan Anco”	: 东莞安可食品有限公司 (Dongguan Anco Food Co., Ltd.)
“Dongguan Andegu”	: 东莞安德固塑料包装物有限公司 (Dongguan Andegu Plastic Packaging Material Ltd) (which is in the process of being incorporated)
“Dongguan Hsu Chi”	: 东莞徐记食品有限公司 (Dongguan Hsu Chi Food Co., Ltd.)
“Dongguan Hsu Fu Chi”	: 东莞徐福记食品有限公司 (Dongguan HsuFuChi Food Co., Ltd.)
“Dongguan Ruihuashi”	: 东莞瑞华士生物科技有限公司 (Dongguan Ruihuashi Biotechnology Ltd.) (which is in the process of being incorporated)
“Group”	: The Company and its subsidiaries
“Hsu Fu Chi Foods”	: Hsu Fu Chi Foods Pte. Ltd.
“Hsu Fu Chi Holdings”	: Hsu Fu Chi Holdings Ltd.
“Hsu Fu Chi (Hong Kong)”	: Hsu Fu Chi (Hong Kong) Trading Company Limited
“Top Ocean”	: Top Ocean Trading Limited

General

“Articles”	: The articles of association of the Company as amended, supplemented or modified from time to time
“Application Forms”	: The official printed application forms to be used for the purpose of the Invitation and which form part of this Prospectus
“Application List”	: The list of applications for subscription of the Invitation Shares
“Associate”	: (1) For the purposes of the Listing Manual: (a) in relation to any director, chief executive officer, substantial shareholder or controlling shareholder (being an individual) means: (i) his spouse, child, adopted child, step-child, sibling and parent; (ii) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; or (iii) any company in which he and his immediate family together (directly or indirectly) have an interest of 30 per cent. or more;

(b) in relation to a substantial shareholder or a controlling shareholder (being a company) means any other company which is its subsidiary or holding company or is a subsidiary of any such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30 per cent. or more.

(2) For the purposes of the SFR:

(a) in relation to an entity, means:

(i) in a case where the entity is a substantial shareholder, controlling shareholder, substantial interest-holder or controlling interest-holder, its related corporation, related entity, associated company or associated entity; or

(ii) in any other case:

(A) a director or an equivalent person;

(B) where the entity is a corporation, a controlling shareholder of the entity;

(C) where the entity is not a corporation, a controlling interest-holder of the entity;

(D) a subsidiary, a subsidiary entity, an associated company, or an associated entity; or

(E) a subsidiary, a subsidiary entity, an associated company, or an associated entity, of the controlling shareholder or controlling interest-holder, as the case may be,

of the entity; and

(b) in relation to an individual, means:

(i) his immediate family (namely the individual's spouse, son, adopted son, step-son, daughter, adopted daughter, step-daughter, father, step-father, mother, step-mother, brother, step-brother, sister or step-sister);

(ii) a trustee of any trust of which the individual or any member of the individual's immediate family is:

(A) a beneficiary; or

(B) where the trust is a discretionary trust, a discretionary object,

when the trustee acts in that capacity; or

(iii) any corporation in which he and his immediate family (whether directly or indirectly) have interests in voting shares of an aggregate of not less than 30% of the total votes attached to all voting shares

"Associated Company"

: (1) For the purposes of the Listing Manual:

a company in which at least 20% but not more than 50% of its shares are held by the listed company or group

(2) For the purposes of the SFR:

in relation to an entity, means:-

- (a) any corporation, other than a subsidiary of the entity, in which –
 - (i) the entity or one or more of its subsidiaries or subsidiary entities has;
 - (ii) the entity, one or more of its subsidiaries and one or more of its subsidiary entities together have;
 - (iii) the entity and one or more of its subsidiaries together have;
 - (iv) the entity and one or more of its subsidiary entities together have; or
 - (v) one or more of the subsidiaries of the entity and one or more of the subsidiary entities of the entity together have,

a direct interest in voting shares of not less than 20% but not more than 50% of the total votes attached to all voting shares in the corporation; or

- (b) any corporation, other than a subsidiary of the entity or a corporation which is an associated company of the entity by virtue of paragraph (a), the policies of which –
 - (i) the entity or one or more of its subsidiaries or subsidiary entities;
 - (ii) the entity together with one or more of its subsidiaries and one or more of its subsidiary entities;
 - (iii) the entity together with one or more of its subsidiaries;
 - (iv) the entity together with one or more of its subsidiary entities; or
 - (v) one or more of the subsidiaries of the entity together with one or more of the subsidiary entities of the entity,

is or are able to control or influence materially

<i>“ATM”</i>	:	Automated teller machine of a Participating Bank
<i>“Audit Committee”</i>	:	The audit committee of the Company for the time being
<i>“Board” or “Board of Directors”</i>	:	The board of Directors as of the date of this Prospectus, unless otherwise stated
<i>“Cayman Companies Law”</i>	:	The Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
<i>“Chinese New Year Candies”</i>	:	Candies and chocolate products that, as a matter of Chinese customs in the PRC, are usually consumed during the Chinese New Year festive season, such as 酥心糖 (peanut crisp candy) and 金币巧克力 (gold coin chocolates)

“control”	<p>: (1) For the purposes of the SFA:</p> <p>in relation to an entity, means the capacity of a person to determine the outcome of decisions on the financial and operating policies of the entity, having regard to –</p> <ul style="list-style-type: none"> (a) the influence which the person can, in practice, exert on the entity (as opposed to the rights which the person can exercise in the entity); and (b) any practice or pattern of behaviour of the person affecting the financial or operating policies of the entity (even if such practice or pattern of behaviour involves a breach of an agreement or a breach of trust), <p>but does not include any capacity of a person to influence decisions on the financial and operating policies of the entity if such influence is required by law or under any contract or order of court to be exercised for the benefit of other persons</p>
	<p>(2) For the purposes of the Listing Manual:</p> <p>the capacity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of a company</p>
“Controlling Shareholder”	<p>: (1) For the purposes of the Listing Manual:</p> <p>a person who:</p> <ul style="list-style-type: none"> (a) holds directly or indirectly 15% or more of the nominal amount of all voting shares in a company. The SGX-ST may determine that a person who satisfies this paragraph is not a controlling shareholder; or (b) in fact exercises control over a company <p>(2) For the purposes of the SFR:</p> <p>in relation to a corporation, means</p> <ul style="list-style-type: none"> (a) a person who has an interest in the voting shares of the corporation and who exercises control over the corporation; or (b) a person who has an interest in the voting shares of the corporation of an aggregate of not less than 30% of the total votes attached to all voting shares in the corporation, unless he does not exercise control over the corporation
“Directors”	<p>: The directors of the Company as of the date of this Prospectus, unless otherwise stated</p>
“Electronic Applications”	<p>: Applications for the Offer Shares made through the ATMs or the IB websites of the relevant Participating Banks in accordance with the terms and conditions of this Prospectus</p>
“EPS”	<p>: Earnings per Share</p>
“ERP”	<p>: Enterprise Resource Planning, a business management system that is designed to integrate the business processes and management functions of an enterprise in a computerised environment</p>

<i>“Executive Chairman”</i>	:	The executive chairman of the Group. As of the date of this Prospectus, the Executive Chairman is Mr. Hsu, Chen
<i>“Executive Directors”</i>	:	The executive Directors as of the date of this Prospectus, unless otherwise stated
<i>“Executive Officers”</i>	:	The executive officers of the Group as of the date of this Prospectus, unless otherwise stated
<i>“FIE” or “Foreign Investment Enterprise”</i>	:	A limited liability company established within the territory of the PRC in accordance with relevant PRC laws and regulations regulating enterprises invested by foreign investor(s)
<i>“FY”</i>	:	Financial year ended or, as the case may be, ending 30 June
<i>“Final Price”</i>	:	The Final Price will be determined following a book-building process by agreement between the Company and Cazenove on the Price Determination Date and will not be more than S\$0.85 (the Maximum Offering Price)
<i>“GDP”</i>	:	Gross Domestic Product
<i>“Great Horizon”</i>	:	Great Horizon Investments Limited
<i>“HACCP”</i>	:	Hazard Analysis and Critical Control Point, a system evaluating the identification, evaluation and control of food safety hazards, certified through 中国质量认证中心 (China Quality Certification Centre)
<i>“IB”</i>	:	Internet Banking
<i>“Independent Directors”</i>	:	The independent Directors as of the date of this Prospectus, unless otherwise stated
<i>“Independent Third Party”</i>	:	A person or an entity that is independent of the Directors, the Executive Chairman and Substantial Shareholders of the Company, and of their respective associates
<i>“Interested Person”</i>	:	In relation to an entity, means: <ul style="list-style-type: none"> (a) a director or an equivalent person of the entity; (b) the chief executive officer or equivalent person of the entity; (c) where the entity is a corporation, a Controlling Shareholder of the entity; (d) where the entity is not a corporation, a controlling interest-holder of the entity; or (e) an associate of any person referred to in paragraph (a), (b), (c) or (d)
<i>“Invitation”</i>	:	The invitation by the Company of 125,000,000 Shares for subscription by investors at the Final Price, consisting of the Placement and the Public Offer
<i>“ISO”</i>	:	International Organisation for Standardisation, a network of the national standards institutes
<i>“ISO 9001-2000”</i>	:	Quality management system model published by ISO

<i>“Latest Practicable Date”</i>	: 18 October 2006, being the latest practicable date for the purposes of lodgment of this Prospectus
<i>“Listing Date”</i>	: The date on which trading in the Shares commences on the SGX-ST
<i>“Listing Manual”</i>	: The Listing Manual of the SGX-ST
<i>“Market Day”</i>	: A day on which the SGX-ST is open for trading in securities
<i>“Maximum Offering Price”</i>	: S\$0.85 for each Invitation Share
<i>“Mellberg”</i>	: Mellberg Limited
<i>“Neighbourhood Shops”</i>	: Small (and usually family run) grocery or provision shops that are conveniently located within residential and commercial areas
<i>“New Shares” or “Invitation Shares”</i>	: 125,000,000 Shares to be issued by the Company and being offered by the Company in the Invitation
<i>“Non-Executive Directors”</i>	: The non-executive Directors as of the date of this Prospectus
<i>“NTA”</i>	: Net tangible assets
<i>“Offer Shares”</i>	: 10,000,000 Invitation Shares which are the subject of the Public Offer
<i>“PER”</i>	: Price earnings ratio
<i>“Placement”</i>	: An international placement of the Placement Shares to investors, including qualified institutional buyers in the United States and institutional and other investors outside of the United States, including Singapore, and including the Reserved Shares which will be reserved in the manner described in the definition of “Reserved Shares”. Investors applying in the Placement are required to pay the Final Price and applicants for the Reserved Shares are required to pay the Maximum Offering Price, subject to a refund if and to the extent that the Final Price is less than the Maximum Offering Price
<i>“Placement Shares”</i>	: 102,500,000 of the Invitation Shares (excluding the Reserved Shares), which are the subject of the Placement
<i>“Price Determination Date”</i>	: The date currently expected to be 27 November 2006 on which date the Final Price will be determined following a book-building process by agreement between the Company and Cazenove
<i>“Production Peak Season”</i>	: October to January
<i>“Prospectus”</i>	: This prospectus dated 22 November 2006 issued by the Company in respect of the Invitation
<i>“Public Offer”</i>	: An offering of 10,000,000 Invitation Shares to the public in Singapore
<i>“Q1”</i>	: 3 months ended or, as the case may be, ending 30 September
<i>“Q2”</i>	: 3 months ended or, as the case may be, ending 31 December
<i>“Q3”</i>	: 3 months ended or, as the case may be, ending 31 March
<i>“Q4”</i>	: 3 months ended or, as the case may be, ending 30 June

<i>“Reserved Shares”</i>	: Up to 12,500,000 Invitation Shares at the Final Price will be reserved for (i) the Directors, (ii) non-executive directors of the Group, (iii) employees of the Group and (iv) others who have contributed to the Group’s success and development. The Reserved Shares will be offered on the same terms as the other Invitation Shares in the Placement, except that applicants for the Reserved Shares are required to pay the Maximum Offering Price, subject to a refund if and to the extent that the Final Price is less than the Maximum Offering Price. If any of the Reserved Shares are not taken up, they will be available to satisfy over-subscription (if any) for Invitation Shares in the Placement and/or the Public Offer
<i>“Restructuring Exercise”</i>	: The corporate restructuring exercise undertaken in connection with the Invitation as described under “Restructuring Exercise” of this Prospectus
<i>“Retail Points”</i>	: Retail points of varying sizes ranging from small kiosks to hypermarkets at which the Group’s products are sold
<i>“Sachima”</i>	: Traditional Chinese flour puff snack made from flour, eggs and candy syrup
<i>“Sales Headquarters”</i>	: The sales headquarters, which is located at the Group’s production facilities in Dongguan and controls all the sales offices of the Group
<i>“Sales Peak Season”</i>	: December to the Chinese New Year (which is based on the lunar calendar)
<i>“Securities Account”</i>	: The securities account maintained by a depositor with CDP
<i>“SFA”</i>	: The Securities and Futures Act, Chapter 289 of Singapore
<i>“SFR”</i>	: Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005
<i>“Shareholders”</i>	: Registered holders of Shares
<i>“Shares”</i>	: Ordinary shares of S\$0.01 each in the capital of the Company
<i>“Singapore Companies Act”</i>	: The Companies Act, Chapter 50 of Singapore
<i>“Singapore Take-over and Merger Laws and Regulations”</i>	: Sections 138, 139 and 140 of the SFA and the Singapore Code on Take-overs and Mergers
<i>“Specialty Counters”</i>	: Dedicated sales counters set up by the Group to promote its individually packaged products and staffed by its own employees
<i>“Substantial Shareholders”</i>	: Persons who have an interest in the Shares, the nominal amount of which is not less than 5 per cent. of the aggregate of the nominal amount of all the voting shares of the Company
<i>“U.S. Securities Act”</i>	: The United States Securities Act of 1933, as amended
<i>“Transpac Capital”</i>	: Transpac Capital Pte Ltd
<i>“Transpac Industrial”</i>	: Transpac Industrial Holdings Limited
<i>“Transpac Nominees”</i>	: Transpac Nominees Pte Ltd
<i>“VAT”</i>	: Value added tax

Currencies, Units of Measurement and Others

“Beijing”	:	The capital city of the PRC
“Dongguan”	:	The city of Dongguan, in the province of Guangdong in the PRC
“Fujian”	:	The province of Fujian in the PRC
“Guangdong”	:	The province of Guangdong in the PRC
“Henan”	:	The province of Henan in the PRC
“Hong Kong”	:	The Hong Kong Special Administrative Region of the PRC
“kg”	:	Kilogram
“Liaoning”	:	The province of Liaoning in the PRC
“Macau”	:	The Macau Special Administrative Region of the PRC
“HK\$”	:	Hong Kong dollars
“\$” or “S\$”	:	Singapore dollars
“PRC” or “China”	:	People’s Republic of China, excluding Macau and Hong Kong for the purposes of this Prospectus and for geographical reference only
“Shandong”	:	The province of Shandong in the PRC
“Shanghai”	:	The city of Shanghai in the PRC
“Shanxi”	:	The province of Shanxi in the PRC
“Sichuan”	:	The province of Sichuan in the PRC
“RMB”	:	Renminbi
“US” or “United States”	:	United States of America, its territories and possessions, any state of the United States and the District of Columbia
“US\$”	:	United States dollars
“%” or “per cent.”	:	Per centum or percentage
“sq.ft.”	:	Square feet
“sq.m.”	:	Square metres
“Tianjin”	:	The city of Tianjin in the PRC
“tonne”	:	1,000 kilograms
“Zhejiang”	:	The province of Zhejiang in the PRC

Other Corporations and Agencies

“CDP”	:	The Central Depository (Pte) Limited
“CPF”	:	The Central Provident Fund
“MAS” or the “Authority”	:	The Monetary Authority of Singapore
“Participating Banks”	:	DBS Bank Ltd (including POSB) (“DBS Bank”), Oversea-Chinese Banking Corporation Limited (“OCBC”) and United Overseas Bank Limited and its subsidiary, Far Eastern Bank Limited (“UOB Group”)

All figures are translated (where relevant) for the purposes of this Prospectus from square feet to square metre, at 10.764 square feet = 1 square metre.

The expressions “Depositor”, “Depository Agent” and “Depository Register” shall have the meanings ascribed to them respectively in Section 130A of the Singapore Companies Act.

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and *vice versa*. References to persons shall include corporations.

Any reference in this Prospectus, the Application Forms and Electronic Applications to any statute or enactment is a reference to that statute or enactment as for the time being amended or re-enacted. Any word defined under the Singapore Companies Act, the Cayman Companies Law, the Securities and Futures Act or any statutory modification thereof and used in this Prospectus, the Application Forms and Electronic Applications shall, where applicable, have the meaning assigned to it under the Singapore Companies Act, the Cayman Companies Law, the Securities and Futures Act or any statutory modification thereof, as the case may be.

Any reference in this Prospectus, the Application Forms and Electronic Applications to Shares being allotted and/or allocated to an applicant includes allotment and/or allocation to CDP for the account of that Applicant.

Any reference to a time of day in this Prospectus shall be a reference to Singapore time unless otherwise stated.

Any reference to “consumers” in this Prospectus shall be a reference to persons who consume the Group’s confectionery products or consumers in general, as the context requires.

Certain names with Chinese characters have been translated into English names. Such translations are provided solely for the convenience of the investors. They may not be registered with the relevant PRC authorities and should not be construed as representations that the English names actually represent the Chinese characters. In the case of any inconsistency between the English names and their respective official Chinese names, the Chinese names shall prevail.

Any discrepancies in the tables included herein between the listed amounts and the totals thereof are due to rounding. Where applicable, figures and percentages are rounded to one decimal place and, as a result, may not add up to the respective sub-totals or totals. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

In addition, unless indicated otherwise, all information in this Prospectus assumes: the Final Price of the Invitation Shares is S\$0.85, being the Maximum Offering Price; and no Invitation Shares have been re-allocated between the Placement and the Public Offer.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

All statements contained in this Prospectus, statements made in press releases and oral statements that may be made by the Company or the Directors, Executive Officers or employees acting on the Company's behalf, that are not statements of historical fact, constitute "forward-looking statements". You can identify some of these forward-looking statements by terms such as "expects", "believes", "plans", "intends", "estimates", "anticipates", "may", "will", "would" and "could" or similar words. However, you should note that these words are not the exclusive means of identifying forward-looking statements. All statements regarding the expected financial position, business strategies, plans and prospects of the Group are forward-looking statements.

These forward-looking statements, including without limitation, statements as to:

- (a) future revenue and profitability of the Group;
- (b) expected growth in demand;
- (c) expected industry trends;
- (d) anticipated expansion plans; and
- (e) other matters discussed in this Prospectus regarding matters that are not historical fact,

are only predictions. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, uncertainties and other factors include, among others:

- (a) supply and distribution chain management;
- (b) changing demographics or consumer preferences, consumer health concerns and product category consumption;
- (c) the Group's continued success in product innovation;
- (d) changes in the availability and prices of raw, packaging and other materials which the Group requires to manufacture its products;
- (e) changes in competitive conditions and the Group's ability to compete under such conditions;
- (f) the Group's growth strategies, expansion plans and expected internal growth;
- (g) changes in currency exchange rates and interest rates;
- (h) changes in the Group's future capital needs and the availability of financing and capital resources to fund such needs;
- (i) changes in political, social and economic conditions and the regulatory environment in the PRC and other countries in which the Group conducts business; and
- (j) other factors beyond the Group's control.

Some of these risk factors are discussed in more detail under "Risk Factors" of this Prospectus.

Given the risks and uncertainties that may cause the Group's actual future results, performance or achievements to be materially different than expected, expressed or implied by the forward-looking statements in this Prospectus, undue reliance must not be placed on these statements which apply only as of the date of this Prospectus. Neither the Company, Cazenove, any sub-underwriter, any sub-placement agent nor any other person represents or warrants that the Group's actual future results, performance or achievements will be as discussed in those statements.

The Group's actual results may differ materially from those anticipated in these forward-looking statements as a result of the risks faced by the Group. The Company, Cazenove, the sub-underwriters and the sub-placement agents, disclaim any responsibility to update any of those forward-looking statements or publicly announce any revisions to those forward-looking statements to reflect future developments, events or circumstances. The Company is, however, subject to the provisions of the SFA and the Listing Manual of the SGX-ST regarding corporate disclosure. In particular, pursuant to Section 241 of the SFA, if after the Prospectus is registered but before the close of the Invitation, the Company becomes aware of (a) a false or misleading statement in the

Prospectus; (b) an omission from the Prospectus of any information that should have been included in it under Section 243 of the SFA; or (c) a new circumstance that has arisen since the Prospectus was lodged with the Authority and would have been required by Section 243 of the SFA to be included in the Prospectus, if it had arisen before the Prospectus was lodged, and that is materially adverse from the point of view of an investor, the Company may lodge a supplementary or replacement prospectus with the Authority.

TAKE-OVERS

There are presently no requirements under any Cayman Islands laws or regulations on take-over offers for the Shares that would be applicable to the Company. However, there are requirements under Singapore laws on take-over offers for the Shares that apply to the Company. Following legislative amendments to the Securities and Futures Act which took effect from 15 October 2005, the Company will be subject to the Singapore Take-over and Merger Laws and Regulations for so long as the Shares are listed for quotation on the SGX-ST.

In addition, article 168 of the Articles will, due to its binding effect on the registered Shareholders (which exclude depositors whose Shares are deposited with the CDP), require the Shareholders who make take-over offers for the Shares to comply with the Singapore Take-over and Merger Laws and Regulations. However, it is uncertain whether this can be implemented in practice. This is because article 168 only binds the registered Shareholders, and a person (including a corporation) who is not the registered Shareholder will not be bound to comply with the Singapore Take-over and Merger Laws and Regulations by virtue of the Articles.

Although article 167 of the Articles will, due to its binding effect on the registered Shareholders, require the registered Shareholders to notify the Company upon acquiring a substantial shareholding or upon certain changes in the level of their substantial shareholding, this cannot be enforced in respect of persons who are not the registered Shareholders because article 167 only binds the registered Shareholders and a person (including a corporation) who is not the registered Shareholder will not be bound to comply with article 167. Regardless of whether the Articles are binding on the Shareholders, the Shareholders shall be required to comply with Sections 138, 139 and 140 of the Securities and Futures Act.

For so long as the Shares are listed on the SGX-ST, the Articles provide that each member is required to give notice to the Company of certain particulars, including particulars of his interest and the circumstances by which he has acquired such interest and particulars of the change in such interest, within two business days (as the term is defined in the Articles) after (a) his becoming a Substantial Shareholder, (b) any change in the percentage level (as defined below) of his interests, or (c) the date of cessation of his being a Substantial Shareholder, as the case may be.

“Percentage level”, in relation to a Substantial Shareholder, means the percentage figure ascertained by expressing the total votes attached to all the voting shares in which the Substantial Shareholder has an interest (or interests) immediately before or (as the case may be) immediately after the relevant time as a percentage of the total votes attached to all the voting shares in the Company and, if it is not a whole number, rounding that figure down to the next whole number.

Article 168 provides that, for so long as the Shares are listed on the SGX-ST, the provisions of sections 138, 139 and 140 of the Securities and Futures Act and the Singapore Code on Take-overs and Mergers, shall apply *mutatis mutandis*, to all take-over offers for the Company. Section 215 of the Singapore Companies Act provides that where a scheme or contract involving the transfer of all of the Shares (or all of the Shares in any class) in a company to another corporation (the “transferee company”) has, within the time period prescribed by the Singapore Companies Act, been approved by the holders of not less than 90% of the total number of those shares (excluding treasury shares) or of the Shares of that class (other than Shares already held at the date of the offer), the transferee company may be entitled (subject to the provisions of the Singapore Companies Act) to acquire the Shares of dissenting shareholders in accordance with the provisions of the Singapore Companies Act. Since the Company is not incorporated in Singapore, it is not required to comply with Section 215 of the Singapore Companies Act.

The Singapore Code on Take-overs and Mergers regulates the acquisition of ordinary shares of public companies incorporated in Singapore or companies whose shares are listed for quotation on the SGX-ST and contains certain provisions that may delay, deter or prevent a take-over or change in control of such a public company. Any person acquiring an interest, either on his own or together with parties acting in concert with him, in 30% or more of the voting shares in such a company or, if such person holds, either on his own or together with parties acting in concert with him, between 30% and 50% (both inclusive) of the voting shares in that company and acquires additional voting shares representing more than 1% of the voting shares in that company in any six-month period, must, except with the consent of the Securities Industry Council, extend a take-over offer for the remaining voting shares in accordance with the provisions of the Singapore Code on Take-overs and Mergers. “Parties acting in concert” comprise individuals or companies who, pursuant to an arrangement or understanding (whether formal or informal), co-operate, through the acquisition by any of them of shares in a

public company incorporated in Singapore or a company whose shares are listed for quotation on the SGX-ST, to obtain or consolidate effective control of that company.

Certain persons are presumed (unless the presumption is rebutted) to be acting in concert with each other. They are as follows:

- a company and its related and associated companies and companies whose associated companies include any of these companies;
- a company and its directors (including their close relatives, related trusts and companies controlled by any of the directors, their close relatives and related trusts);
- a company and its pension funds and employee share schemes;
- a person and any investment company, unit trust or other fund whose investment such person manages on a discretionary basis;
- a financial or other professional adviser and its clients in respect of shares held by the adviser and persons controlling, controlled by or under the same control as the adviser and all the funds managed by the adviser on a discretionary basis, where the shareholdings of the adviser and any of those funds in the client total 10% or more of the client's equity share capital;
- directors of a company (including their close relatives, related trusts and companies controlled by any of such directors, their close relatives and related trusts) which is subject to an offer or where the directors have reason to believe a bona fide offer for the Company may be imminent;
- partners; and
- an individual and his close relatives, related trusts, any person who is accustomed to act in accordance with his instructions and companies controlled by the individual, his close relatives, his related trusts or any person who is accustomed to act in accordance with his instructions.

Subject to certain exceptions, a take-over offer must be in cash or be accompanied by a cash alternative at not less than the highest price paid by the offeror or parties acting in concert with the offeror within the preceding six months.

Under the Singapore Code on Take-overs and Mergers, where effective control of a public company incorporated in Singapore or a company whose shares are listed for quotation on the SGX-ST is acquired or consolidated by a person, or persons acting in concert, a general offer to all other shareholders is normally required. An offeror must treat all shareholders of the same class in an offeree company equally. A fundamental requirement is that shareholders in the Company subject to the takeover offer must be given sufficient information, advice and time to consider and decide on the offer.

PURCHASE BY THE COMPANY OF ITS OWN SHARES

Under the laws of the Cayman Islands, a company may, if authorised by its articles of association, purchase its own shares. The Company has such power to purchase its own Shares under Article 3(2) of its Articles. Such power of the Company to purchase its own Shares shall, subject to the Cayman Companies Law and its Articles (and if applicable, the rules and regulations of the SGX-ST and other regulatory authorities), be exercisable by the Directors upon such terms and subject to such conditions as they think fit, in accordance with Article 3(2).

Under the laws of the Cayman Islands, such purchases may be effected out of profits of the Company or out of proceeds of a fresh issue of Shares made for that purpose or, in the manner authorised by its Articles, by a payment out of capital. At no time may the Company purchase its Shares if, as a result of the purchase, there would no longer be any member of the Company holding Shares. Only fully paid Shares may be purchased by the Company. A payment out of capital by the Company for the purchase of its Shares is not lawful unless immediately following the date on which the payment out of capital is proposed to be made, the Company shall be able to pay its debts as they fall due in the ordinary course of business. Shares purchased by the Company will be treated as cancelled and the Company's issued, but not its authorised, capital will be diminished accordingly.

For further details, please see "Purchase of shares and warrants by a company and its subsidiaries" in "Appendix B—Summary of Cayman Islands Company Law" of this Prospectus.

The Company currently has no intention to purchase the Shares after the Invitation. However, if it decides to do so later, the Company will seek its Shareholders' approval in accordance with its Articles and the rules of the SGX-ST. The Company will make prompt public announcements of any such share purchase and has also given an undertaking to the SGX-ST to comply with all requirements that the SGX-ST may impose in the event of any such share purchase.

ATTENDANCE AT GENERAL MEETINGS

Under the Cayman Companies Law, only persons who agree to become members of a company and whose names are entered on the register of members of such company are considered members, with rights to attend and vote at general meetings. Accordingly, Depositors holding Shares through the CDP would not be recognised as members of the Company, and would not have a right to attend and to vote at general meetings of the Company. In the event that Depositors wish to attend and vote at general meetings of the Company, CDP will have to appoint them as proxies, pursuant to the Articles and the Cayman Companies Law. In accordance with Article 77(1), unless CDP specifies otherwise in a written notice to the Company, CDP shall be deemed to have appointed as CDP's proxies each of the Depositors who are individuals and whose names are shown in the records of CDP, as at a time not earlier than forty-eight (48) hours prior to the time of the relevant general meeting, supplied by CDP to the Company. Therefore, Depositors who are individuals can attend and vote at the general meetings of the Company without the lodgment of any proxy form. Depositors who cannot attend a meeting personally may enable their nominees to attend as CDP's proxies. Depositors who are not individuals can only be represented at a general meeting of the Company if their nominees are appointed by CDP as CDP's proxies. Proxy forms appointing nominees of Depositors as proxies of CDP would need to be executed by CDP as member and must be deposited at the specified place and within the specified time frame to enable the nominees to attend and vote at the relevant general meeting of the Company.

SELLING RESTRICTIONS

Singapore

This Prospectus does not constitute an offer, solicitation or invitation to subscribe for the Invitation Shares in any jurisdiction in which such offer, solicitation or invitation is unlawful or is not authorised or to any person to whom it is unlawful to make such offer, solicitation or invitation. No action has been or will be taken under the requirements of the legislation or regulations of, or of the legal regulatory requirements of any jurisdiction, except for the filing and/or registration of this Prospectus in Singapore in order to permit a public offering of the Invitation Shares and the public distribution of this Prospectus in Singapore. The distribution of this Prospectus and the offering of the Invitation Shares in certain jurisdictions may be restricted by the relevant laws in such jurisdictions. Persons who may come into possession of this Prospectus are required by the Company, Cazenove, the sub-underwriters and the sub-placement agents to inform themselves about, and to observe and comply with, any such restrictions.

Hong Kong

This Prospectus has not been and will not be registered with the Registrar of Companies in Hong Kong and accordingly, except as mentioned below, this Prospectus may not be issued, circulated or distributed in Hong Kong.

This Prospectus may be issued to professional investors within the meaning of the Securities and Futures Ordinance (the “Ordinance”) (Chapter 571 of the Laws of Hong Kong); or otherwise pursuant to, and in accordance with the conditions of, any other applicable exemptions set out in the Ordinance and/or the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). This Prospectus may also be issued in a manner that does not constitute an invitation or an offer to the public in Hong Kong to acquire or subscribe for the Invitation Shares.

United States

The Shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold or delivered within the United States except to qualified institutional buyers in reliance on Rule 144A, and outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act. Further, until 40 days after the commencement of the Invitation, an offer or sale of the Shares within the United States by a dealer that is not participating in the Invitation may violate the registration requirement of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Canada

The Shares may not be offered or sold, directly or indirectly, in any province or territory of Canada or to, or for the benefit of, any resident of any province or territory of Canada except pursuant to an exemption from the requirement to file a Prospectus in the province or territory of Canada in which such offer or sale is made and only by a dealer duly registered under the applicable securities laws of that province or territory in circumstances where an exemption from the applicable registered dealer requirements is available.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each initial purchaser is expected to represent and agree that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Shares to the public in that Relevant Member State prior to the publication of a Prospectus in relation to the Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance

with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Shares to the public in that Relevant Member State at any time:

- to legal entities which 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;
- to any legal entity which 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 €43,000,000; and
 - (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- in any circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Shares to the public” in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to subscribe for the 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 included any relevant implementing measure in each Relevant Member State.

France

The Shares will not be offered or sold, and copies of this Prospectus will not be distributed or caused to be distributed, directly or indirectly, in France except to corporate entities having the status of “qualified investors” (*“investisseur qualifié”*), as defined in article L.411-2 of the French *Code Monétaire et Financier* and acting for their own account, or otherwise in circumstances which have not resulted and will not result in a public offering (*“appel public à l’épargne”*) in France as defined in article L.411-1 of the French *Code Monétaire et Financier*. Accordingly, no Shares will be offered, under circumstances, directly or indirectly, to the public in France.

As required by AMF Regulation no. 98-09, such *investisseur qualifiés* are informed that:

- (i) no Prospectus in relation to the Shares has been or will be lodged or registered with the French *Autorité des Marchés Financiers*;
- (ii) they must participate in the Invitation on their own account, in the conditions set out in the decree no. 98-880 of 1 October 1998; and
- (iii) the direct or indirect offer or sale, to the public in France, of the Shares can only be made in accordance with articles 6 and 7 of Ordinance no. 67-833 of 28 September 1967.

Germany

The Shares have not been admitted to trading on a German stock exchange and no sales prospectus pursuant to the German Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) of 9 September 1998, as amended, has been filed with or approved by the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) or published with regard to the offer of the Shares in Germany. Accordingly, no offer of the Shares is being made to the public in Germany and the Shares may not be offered or sold in Germany by means of this Prospectus or otherwise, either directly or indirectly, except to persons or under circumstances falling within the scope of section 2 numbers 1, 2 or 4 of the German Securities Sales Prospectus Act and other applicable laws and regulations. Under these exemptions of the German Securities Sales Prospectus Act, the Shares can only be offered and sold:

- (i) to persons who, in the course of their professional or commercial activities, purchase or sell securities for their own account or for the account of others;
- (ii) to a restricted circle of persons as this term is construed by the courts and the Federal Financial Supervisory Authority; or
- (iii) to investors if they can be acquired only denominations of at least EUR40,000 or for a purchase price of at least EUR40,000 per investor.

Neither this Prospectus, nor any other document issued in connection with the offer or sale of the Shares, may be issued or distributed to any person in Germany except under circumstances which do not constitute an offer to the public pursuant to the German Securities Sales Prospectus Act.

Any resale of the Shares in Germany may only be made in accordance with the provisions of the Securities Sales Prospectus Act and any other laws applicable in Germany governing the offering and sales of securities.

Italy

This Prospectus has not been and will not be filed with or approved by the Italian securities market regulator (*Commissione Nazionale per le Società e la Borsa*—the “CONSOB”), pursuant to Legislative Decree No. 58 of 24 February 1998 (as amended, the “Finance Law”) and to CONSOB Regulation No. 11971 of 14 May 1999 (as amended, the “Issuers Regulation”). Accordingly, this Prospectus or any other document relating to the Shares may not be distributed, made available or advertised in Italy, nor may the Shares be offered, purchased, sold, advertised or delivered, directly or indirectly, to the public other than:

- (i) to “Professional Investors” (as defined pursuant to Article 31(2) of CONSOB Regulation No. 11522 of 1 July 1998, as amended, the “Intermediaries Regulation”), pursuant to Article 100 of the Finance Law,
- (ii) to prospective investors where the offer of the Shares is subject to a minimum investment requirement of EUR 250,000.00 or to a maximum, in Italy, of 200 investors, pursuant to Article 33 of the Issuers Regulation; or
- (iii) otherwise pursuant to, and in compliance with the conditions set forth by Article 100 of the Finance Law or by Article 33 of the Issuers Regulation, or by any applicable exemption, provided that any such offer, sale, advertising or delivery of the Shares or distribution of the prospectus, or any part thereof, or of any other document or material relating to the Shares in Italy is made:
 - (a) by investment firms, banks or financial intermediaries authorised to carry out such activities in the Republic of Italy in accordance with the Finance Law, the Issuers Regulation, the Legislative Decree No. 58 of 24 February 1998, the Legislative Decree No. 385 of 1 September 1993 (as amended, the “Banking Law”), the Intermediaries Regulation, and any other applicable laws and regulations;
 - (b) in compliance, as the case may be, with Article 129 of the Banking Law and the implementing regulations issued by the Italian national central bank (“Bank of Italy”); and
 - (c) in compliance with any other applicable notification requirement or duty which may, from time to time, be imposed by CONSOB, Bank of Italy or by any other competent authority.

Japan

The Invitation has not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”). None of the Shares may be offered, re-offered, sold or re-sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except:

- (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law; and
- (ii) in compliance with any other applicable requirements of Japanese Law.

As used in this paragraph, a resident of Japan means any individual residing in Japan and business offices located in Japan, including any corporation or other entity established under the laws of Japan.

Luxembourg

The Shares are not being offered to the public in the Grand Duchy of Luxembourg and will not be offered or caused to be offered or contributed to be offered to the public in Luxembourg, unless all the relevant legal and regulatory requirements have been complied with. In particular, this Invitation has not been and may not be announced to the public in Luxembourg and offering material may not be made available to the public in Luxembourg.

Taiwan

This Prospectus has not been and will not be registered as a prospectus with the Securities and Futures Commission of Taiwan under the Securities and Exchange Law of Taiwan and the Company has not been and

will not be registered under the Company law of Taiwan and related laws and regulations of Taiwan. Accordingly, none of the Shares may be offered for subscription, purchase or sold, directly or indirectly, to the public in Taiwan.

United Kingdom

This Prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom nor will it be so registered. Neither the London Stock Exchange nor any other authority in the United Kingdom has examined this Prospectus. The Shares may not be offered or sold in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Financial Services and Markets Act 2000 (as amended). In addition, this Prospectus is being distributed in the United Kingdom only to and is directed at:

- (i) persons who are investment professionals within the meaning of Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (“FPO”); or
- (ii) persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc”) of the FPO (all such persons together being referred to as “relevant persons”).

This Prospectus must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

TRANSFER RESTRICTIONS

The Shares have not been registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act) except to (a) qualified institutional buyers in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A and (b) certain persons in offshore transactions in reliance on Regulation S.

Each purchaser of the Shares will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the U.S. Securities Act are used herein as defined therein):

- (1) The purchaser (A) (i) is a qualified institutional buyer, (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring the Shares for its own account or for the account of a qualified institutional buyer, or (B) is not a U.S. person and is purchasing the Shares in an offshore transaction pursuant to Regulation S.
- (2) The purchaser understands that the Shares are being offered in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act, that the Shares have not been and will not be registered under the U.S. Securities Act and that (A) if in the future it decides to offer, resell, pledge or otherwise transfer any of the Shares, such Shares may be offered, resold, pledged or otherwise transferred only (i) in the United States to a person whom the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A under the U.S. Securities Act) in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in an offshore transaction complying with the provisions of Rule 904 under the U.S. Securities Act, (iii) pursuant to an exemption from registration under the U.S. Securities Act provided by Rule 144 thereunder (if available), or (iv) pursuant to an effective registration statement under the U.S. Securities Act, in each of cases (i) through (iv) in accordance with any applicable securities laws of any State of the United States, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the Shares from it of the resale restrictions referred to in (A) above.
- (3) The purchaser understands that the Shares will, until the expiration of the applicable holding period with respect to the Shares set forth in Rule 144(k) of the U.S. Securities Act, unless otherwise agreed by the Company and the holder thereof, bear a legend substantially to the following effect:

THESE SHARES (OR THEIR PREDECESSOR) WERE ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT, AND THESE SHARES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THESE SHARES IS HEREBY NOTIFIED THAT THE SELLER OF THESE SHARES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THESE SHARES AGREES FOR THE BENEFIT OF HSU FU CHI INTERNATIONAL LIMITED THAT (A) THESE SHARES MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE U.S. SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (IV) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT, IN EACH OF CASES (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THESE SHARES FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

DETAILS OF THE INVITATION

LISTING ON THE SGX-ST

The Company has applied to the SGX-ST for permission to deal in and for quotation of all the Shares already issued and the New Shares. Such permission will be granted when the Company has been admitted to the Official List of the SGX-ST. Acceptance of applications will be conditional upon, *inter alia*, permission being granted by the SGX-ST to deal in, and for quotation of, all the existing issued Shares and the New Shares. Monies paid in respect of any application accepted will be returned to you, without interest or any share of revenue or other benefit arising therefrom and at your own risk, if the Invitation is not completed because the said permission is not granted or for any other reasons (including where the Authority issues a Stop Order (as defined below)) and you will not have any claims whatsoever against the Company or Cazenove.

Investors applying in the Public Offer and applicants for the Reserved Shares are required to pay the Maximum Offering Price, subject to a refund if and to the extent that the Final Price is less than the Maximum Offering Price. All refunds for Shares shall be without interest or any share of revenue or other benefit arising therefrom. Investors applying in the Placement (save for the Reserved Shares) are required to pay the Final Price.

The SGX-ST assumes no responsibility for the correctness of any statements or opinions made or reports contained in this Prospectus. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Invitation, the Company, its subsidiaries, the Shares or the Invitation Shares.

A copy of this Prospectus has been lodged with and registered by the Authority on 30 October 2006 and 22 November 2006 respectively. The Authority assumes no responsibility for the contents of this Prospectus. Registration of this Prospectus by the Authority does not imply that the SFA, or any other legal or regulatory requirements, have been complied with. The Authority has not, in any way, considered the merits of the Shares or the Invitation Shares, as the case may be, being offered or in respect of which an invitation is made, for investment.

The Company is subject to the provisions of the SFA and the Listing Manual regarding corporate disclosure. In particular, if after this Prospectus is registered but before the close of the Invitation, the Company becomes aware of:

- (a) a false or misleading statement in the Prospectus;
- (b) an omission from the Prospectus of any information that should have been included in it under Section 243 of the SFA; or
- (c) a new circumstance that has arisen since the Prospectus was lodged with the Authority which would have been required by Section 243 of the SFA to be included in the Prospectus if it had arisen before this Prospectus was lodged,

that is materially adverse from the point of view of an investor, the Company may lodge a supplementary or replacement prospectus with the Authority pursuant to Section 241 of the SFA.

Where applications have been made for the Invitation Shares prior to the lodgment of the supplementary or replacement prospectus, the Company shall, within seven days from the date of lodgment of the supplementary or replacement prospectus, either:

- (a) provide the applicants with a copy of the supplementary or replacement prospectus and, as the case may be, provide the applicants with an option to withdraw their applications; or
- (b) subject to compliance with the Cayman Companies Law, treat the applications as withdrawn and cancelled and return all monies paid, without interest or any share of revenue or other benefit arising therefrom, in respect of any application accepted within seven days from the date of lodgment of the supplementary or replacement prospectus.

Any applicant who wishes to exercise his option to withdraw his application shall, within 14 days from the date of lodgment of the supplementary or replacement prospectus, notify the Company whereupon they shall, within seven days from the receipt of such notification, return the application monies without interest or any share of revenue or other benefit arising therefrom and at the applicant's own risk.

Pursuant to Section 242 of the SFA, the Authority may, in certain circumstances issue a stop order (the "Stop Order") to the Company, directing that no or no further Shares to which this Prospectus relates, be allotted,

issued or sold. Such circumstances will include a situation where this Prospectus (i) contains a statement, which in the opinion of the Authority, is false or misleading, (ii) omits any information that should be included in it under Section 243 of the SFA, (iii) does not, in the opinion of the Authority, comply with the requirements of the SFA, or (iv) in the opinion of the Authority, that it is in the public interest to do so.

In the event that the Authority issues a Stop Order, it is provided in Section 242 of the SFA that:

- (a) in the case where the Invitation Shares have not been issued to the applicants, the applications for the Invitation Shares pursuant to the Invitation shall be deemed to have been withdrawn and cancelled and the Company shall, within 14 days from the date of the Stop Order, pay to the applicants all monies the applicants have paid on account of their applications for the Invitation Shares; or
- (b) in the case where the Invitation Shares have been issued to the applicants, the issue of the Invitation Shares pursuant to the Invitation shall be deemed to be void and the Company shall, within 14 days from the date of the Stop Order, pay to the applicants all monies paid by them for the Invitation Shares.

Such monies paid in respect of your application will be returned to you at your own risk, without interest or any share or revenue or other benefit arising therefrom, and you will not have any claim against the Company, Cazenove, any sub-underwriter or any sub-placement agent.

If the Company is required by applicable Singapore laws to cancel issued New Shares and repay application monies to applicants (including instances where a Stop Order under the Securities and Futures Act is issued), subject to compliance with the Cayman Companies Law and its Articles of Association, the Company will purchase the New Shares at the Final Price. Information relating to the purchase of Shares by the Company is set out in “Purchase by the Company of its Own Shares” of this Prospectus.

Neither the Company, Cazenove nor any other parties involved in the Invitation is making any representation to any person regarding the legality of an investment by such person under any investment or other laws or regulations. No information in this Prospectus should be considered as being business, legal or tax advice regarding an investment in the Shares. Each prospective investor should consult his own professional or other advisers for business, legal or tax advice regarding an investment in the Shares.

The Invitation Shares are offered for subscription solely on the basis of the information contained and the representations made in this Prospectus.

No person has been or is authorised to give any information or to make any representation not contained in this Prospectus in connection with the Invitation and, if given or made, such information or representation must not be relied upon as having been authorised by the Company or Cazenove. Neither the delivery of this Prospectus and the Application Forms nor any documents relating to the Invitation, nor the Invitation shall, under any circumstances, constitute a continuing representation or create any suggestion or implication that there has been no change or development reasonably likely to invoke a change in the Group’s affairs or in the statements of fact or information contained in this Prospectus since the date of this Prospectus. Where such changes occur, the Company may lodge a supplementary or replacement prospectus with the Authority and make an announcement of the same to the SGX-ST and/or the Authority and will comply with the requirements of the SFA and/or any other requirements of the SGX-ST and/or the Authority. All applicants should take note of any such announcements and, upon the release of such an announcement, shall be deemed to have notice of such changes. Save as expressly stated in this Prospectus, nothing herein is, or may be relied upon as, a promise or representation as to the Group’s future performance or policies.

This Prospectus has been prepared solely for the purpose of the Invitation and may not be relied upon by any other persons other than the applicants in connection with their application for the Invitation Shares or for any other purpose.

This Prospectus does not constitute an offer, solicitation or invitation of the Invitation Shares in any jurisdiction in which such offer, or solicitation or invitation is unlawful or unauthorised nor does it constitute an offer, solicitation or invitation to any person to whom it is unlawful to make such offer, solicitation or invitation.

Copies of this Prospectus and the Application Forms may be obtained on request, subject to availability, during office hours, from:-

Cazenove & Co. (Singapore) Pte. Limited
9 Raffles Place #52-01
Republic Plaza
Singapore 048619

and members of the Association of Banks in Singapore, members of the SGX-ST and merchant banks in Singapore. A copy of this Prospectus is also available on the SGX-ST website: <http://www.sgx.com>.

The Invitation will be open from 23 November 2006 to 27 November 2006.

The Application List will open at 10.00 a.m. on 27 November 2006 and will remain open until 12.00 noon on the same day or for such further period or periods as the Directors may, in consultation with Cazenove, in their absolute discretion decide, subject to any limitation under all applicable laws. In the event a supplementary prospectus or replacement prospectus is lodged with the Authority, the Application List will remain open for at least 14 days after the lodgment of the supplementary or replacement prospectus.

Details of the procedures for application of the Invitation Shares are set out in the instructions booklet entitled “Terms, Conditions and Procedures for Application and Acceptance”, which constitutes part of this Prospectus registered with the Authority.

INDICATIVE TIMETABLE FOR LISTING

An indicative timetable on the trading of the Shares on a “when ready” basis is set out below for reference of applicants:-

Indicative date/time	Event
23 November 2006, 9.00 a.m.	Opening date and time for the Public Offer and the Placement in Singapore
27 November 2006, 12.00 noon	Close of application list and closing date and time for the Public Offer
27 November 2006, 12.00 noon	Closing date and time for the Placement in Singapore
27 November 2006	Price Determination Date
28 November 2006	Balloting of applications, if necessary (in the event of over-subscription for the Offer Shares). Commence returning or refunding of application monies to unsuccessful or partially successful applicants and commence returning or refunding of application monies to successful applicants for the amount paid in excess of the Final Price, if necessary
1 December 2006, 9.00 a.m.	Commence trading on a “ready” basis
6 December 2006	Settlement date for all trades done on a “ready” basis on 1 December 2006

The above timetable is only indicative as it assumes that the date of closing of the Public Offer is 27 November 2006, the date of admission of the Company to the Official List of the SGX-ST is 1 December 2006, the shareholding spread requirement of the SGX-ST will be complied with and the Invitation Shares will be issued and fully paid-up prior to 1 December 2006. The actual date on which the Shares will commence trading on a “ready” basis will be announced when it is confirmed by the SGX-ST.

All dates and times referred to above are Singapore dates and times. The Company may at its discretion, in consultation with Cazenove and subject to all applicable laws and regulations and the rules of the SGX-ST, agree to extend or shorten the Invitation period.

In the event of any changes in the closure of the Application List or the time period during which the Invitation is open, the Company will publicly announce the same:-

- (i) through an SGXNET announcement to be posted on the internet at the SGX-ST website, <http://www.sgx.com>; and
- (ii) in one or more major Singapore newspapers such as *The Straits Times*, *The Business Times* and *Lianhe Zaobao*.

The Company will publicly announce the level of subscription and the results of the distribution of the Invitation Shares pursuant to the Invitation, as soon as it is practicable after the close of the Application List:-

- (i) through an SGXNET announcement to be posted on the Internet at the SGX-ST website, <http://www.sgx.com>; and
- (ii) in one or more major Singapore newspapers such as *The Straits Times*, *The Business Times* and *Lianhe Zaobao*.

Investors should consult the SGX-ST’s announcement on the “ready” trading date on the Internet (at the SGX-ST website, <http://www.sgx.com>), Teletext or the newspapers or check with their brokers on the date on which trading on a “ready” basis will commence.

The Company reserves the right to reject or accept, in whole or in part, or to scale down or ballot any application for the Invitation Shares, without assigning any reason therefor, and no enquiry and/or correspondence on its decision will be entertained. In deciding the basis of allocation, due consideration will be given to the desirability of allocating the Invitation Shares to a reasonable number of applicants with a view to establishing an adequate market for the Shares.

In respect of an application made under the Public Offer, where any such application is rejected, the full amount of the application monies will be refunded (without interest or any share of revenue or other benefit arising therefrom) to the applicant, at his own risk within 14 Market Days after the close of the Invitation (provided that such refunds are made in accordance with the procedures set forth in the instructions booklet entitled “Terms, Conditions and Procedures for Application and Acceptance”).

In respect of an application made under the Public Offer, where any such application is accepted in full or in part only, any balance of the application monies (including the excess monies arising from the difference between the Final Price and the Maximum Offering Price should the Final Price be lower than the Maximum Offering Price) will be refunded (without interest or any share of revenue or other benefit arising therefrom) to the applicant, at his own risk, within 14 Market Days after the close of the Invitation (provided that such refunds are made in accordance with the procedures set forth in the instructions booklet entitled “Terms, Conditions and Procedures for Application and Acceptance”).

If the Public Offer does not proceed for any reason, the Company will refund the full amount of application monies, without interest or any share of revenue or other benefit arising therefrom within three (3) Market Days after the Public Offer is discontinued.

PLAN OF DISTRIBUTION

THE INVITATION

The Invitation comprises the Public Offer and the Placement, including up to 12,500,000 Reserved Shares. A total of 125,000,000 Invitation Shares will be made available under the Invitation, of which 10,000,000 Offer Shares will be offered to the public in Singapore and the remaining 115,000,000 Invitation Shares will be placed pursuant to the Placement, subject in each case to reallocation. The Invitation Shares to be placed pursuant to the Placement will be conditionally placed with (i) professional and institutional and other investors anticipated to have a sizeable demand for the Invitation Shares in Singapore, Hong Kong, Europe and other jurisdictions outside the United States (except the PRC) in offshore transactions in reliance on Regulation S and (ii) “qualified institutional buyers” (“QIBs”) (as defined in Rule 144A) in the United States in reliance on Rule 144A. The Placement includes 12,500,000 Reserved Shares, which will be reserved for (a) the Directors, (b) non-executive directors of the Group, (c) employees of the Group and (d) others who have contributed to the Group’s success and development.

Prior to the Invitation, there has been no public market for the Invitation Shares. The Final Price is expected to be determined by agreement between the Company and Cazenove on the Price Determination Date, which date is subject to change. If for any reason, the Final Price is not agreed between the Company and Cazenove, the Placement and the Public Offer will not proceed. The factors that will be considered in such determination include:

- the indications of interest, in terms of price and quantity, received from institutional investors;
- prevailing market conditions;
- the Group’s historical performance;
- estimates of the Group’s business potential and earning prospects; and
- the market valuation of publicly traded shares of comparable companies,

and estimated market demand for the Shares determined through a book-building process.

Notice of the Final Price will be published in one or more major Singapore newspapers, such as *The Straits Times*, *The Business Times* and *Lianhe Zaobao*, not more than two calendar days after the Price Determination Date.

Neither the Company nor Cazenove can provide you with any assurance that an active trading market will develop for the Invitation Shares or that the Invitation Shares will trade in the public market after the Invitation at or above the Final Price.

Investors may apply to subscribe for any number of New Shares in integral multiples of 1,000 Shares. In order to ensure a reasonable spread of Shareholders, the Company has the absolute discretion to prescribe a limit to the number of New Shares to be allotted to any single applicant and/or to allot New Shares above or under such prescribed limit as the Company shall deem fit.

Offer Shares

Pursuant to the terms and conditions contained in the Public Offer Underwriting Agreement dated 22 November 2006 (the “Public Offer Underwriting Agreement”) entered into between the Company and Cazenove as set out in “General and Statutory Information” of this Prospectus, the Company has appointed Cazenove to manage the Invitation and to underwrite the Offer Shares. Cazenove will receive an underwriting commission of 2.5 per cent. of the Final Price for the Offer Shares, payable by the Company. Cazenove may, at its absolute discretion, appoint one or more sub-underwriters for the Offer Shares. Members of the public may apply for the Offer Shares by way of printed Application Forms or by Electronic Application as described in the instructions booklet entitled “Terms, Conditions and Procedures for Application and Acceptance”. The Public Offer Underwriting Agreement will be conditional upon the occurrence of certain events, including the fulfilment by the Company, or the waiver by the SGX-ST, of all conditions contained in the letter of eligibility from the SGX-ST for the listing and quotation of the Shares on the Main Board of the SGX-ST.

In the event of an under-subscription for the Offer Shares as at the close of the Application List, that number of Offer Shares not subscribed for shall be made available to satisfy excess applications for the Placement Shares to the extent there is an over-subscription for the Placement Shares as at the close of the Application List.

In the event of an over-subscription for the Offer Shares as at the close of the Application List and/or the Placement Shares are fully subscribed or over-subscribed as at the close of the Application List, the successful applications for the Offer Shares will be determined by ballot or otherwise as determined by the Company after consultation with Cazenove and the SGX-ST. The Public Offer is conditional upon the conditions to the Placement set out in the Placing Underwriting Agreement being satisfied.

Placement Shares

Pursuant to the terms and conditions contained in the Placing Underwriting Agreement (the “Placing Underwriting Agreement”) to be entered into between the Company and Cazenove as set out in “General and Statutory Information” of this Prospectus, Cazenove has agreed to subscribe for and/or procure subscribers for the Placement Shares for a placement commission of 2.5 per cent. (as well as an additional incentive commission of up to 0.35 per cent. payable at the discretion of the Company) of the Final Price for the Placement Shares payable by the Company. Cazenove may, at its absolute discretion, appoint one or more sub-placement agents for the Placement Shares. Applications for Placement Shares may only be made by way of printed Application Forms as described in the instructions booklet entitled “Terms, Conditions and Procedures for Application and Acceptance”. The Placing Underwriting Agreement will be conditional upon the occurrence of certain events, including the fulfilment by the Company, or the waiver by the SGX-ST, of all conditions contained in the letter of eligibility from the SGX-ST for the listing and quotation of the Shares on the Main Board of the SGX-ST.

In the event of an under-subscription for the Placement Shares as at the close of the Application List, that number of Placement Shares not subscribed for and/or purchased shall be made available to satisfy excess applications for the Offer Shares to the extent that there is an over-subscription for the Offer Shares as at the close of the Application List. The Placing Underwriting Agreement is conditional upon the Public Offer Underwriting Agreement not being terminated or rescinded pursuant to the provisions of the Public Offer Underwriting Agreement.

Subscribers of the Placement Shares may be required to pay brokerage (and if so required, such brokerage will be up to 1.0 per cent. of the Final Price), stamp taxes and other similar charges in accordance with the laws and practices of the country of purchase, in addition to the Final Price, as applicable.

Reserved Shares

Up to 12,500,000 Invitation Shares in the Placement have been reserved for subscription and/or purchase at the Final Price by (i) the Directors, (ii) non-executive directors of the Group, (iii) employees of the Group and (iv) others who have contributed to its success and development. The Reserved Shares will be offered on the same terms as the other Invitation Shares in the Placement, except that applicants for the Reserved Shares are required to pay the Maximum Offering Price, subject to a refund if and to the extent that the Final Price is less than the Maximum Offering Price. If any of the Reserved Shares are not taken up, they will be available to satisfy over-subscription (if any) for Invitation Shares in the Placement and/or the Public Offer.

The terms, conditions and procedures for application are described in the instructions booklet entitled “Terms, Conditions and Procedures for Application and Acceptance”.

Save for applications that may be made for Reserved Shares (not exceeding 12,500,000 Shares in aggregate), none of the Directors or Substantial Shareholders intend to subscribe for any Invitation Shares in the Invitation.

None of the Directors, members of the management or employees intend to subscribe for more than 5 per cent. of the Invitation Shares in the Invitation.

To the best of the Company’s knowledge and belief, the Company is not aware of any person who intends to subscribe for more than 5 per cent. of the Invitation Shares. However, through a book-building process to assess market demand for the Shares, there may be persons who may indicate an interest to subscribe for Shares amounting to more than 5 per cent. of the Invitation Shares. If such person(s) were to make an application for Shares amounting to more than 5 per cent. of the Invitation Shares and are subsequently allotted and/or allocated such number of Shares, the Company will make the necessary announcements at an appropriate time. The final allotment and/or allocation of Shares will be in accordance with the shareholding spread and distribution guidelines as set out in Rule 210 of the Listing Manual.

No Shares shall be allotted and/or allocated on the basis of this Prospectus later than six months after the date of this Prospectus.

PROSPECTUS SUMMARY

The following summary highlights certain information found in greater detail elsewhere in this Prospectus. This summary may not contain all of the information that you should consider before deciding to invest in the Shares. In addition to this summary, the entire Prospectus should be read carefully, especially “Risk Factors” of this Prospectus, before deciding to invest in the Shares.

OVERVIEW OF THE GROUP

The Group markets a diverse range of its own manufactured confectionery products in the PRC and uses its extensive sales network and strong brand to generate sales in the PRC.

The Group’s diverse product portfolio can be grouped into three major categories: candy products (“Candy Products”), cake and cookie products (“Cake and Cookie Products”) and Sachima products (“Sachima Products”). Under the category of Candy Products, candies, such as the Chinese New Year Candies, are the primary products. Jelly and pudding and chocolates are also included under this category as secondary products.

The Group adopts a multi-product strategy under which its products are sold under its primary brand “Hsu Fu Chi” as well as its secondary brands, such as “DoDo”, “Chaobii” and “Mo Bao”. By using a multi-product strategy, the Group caters to the varying taste of the consumers in the PRC, which varies with geographical regions and seasons of the year. As of the Latest Practicable Date, the Group manufactures all of its products in its modern manufacturing facilities in Dongguan.

In FY 2006, more than 95% of the Group’s revenue was derived from the sales of the Group’s products in the PRC. These sales offices focus primarily on direct sales to its customers including major hypermarket and supermarket chains, such as Carrefour and Wal-Mart. The Group distributes its products to consumers in all of the provinces in the PRC through its customers. The Group has built its sales and distribution operations around its Sales Headquarters which controls the Group’s sales offices. As of the Latest Practicable Date, the Group operated 56 sales offices across most of the PRC. Within the geographical area covered by each sales office, it manages the sales and distribution of the Group’s products, collects the market response to these products and provides logistics support and co-ordination for the distribution of such products. The Sales Headquarters oversees the Group’s sales and distribution operations by, among other things, formulating the Group’s sales and marketing plans.

Please refer to “Business—Overview” of this Prospectus for further details.

Competitive Strengths

- Sales Headquarters overseeing extensive sales network
- Experienced management team
- Strong customer relationships
- Popular brand “徐福记” (Hsu Fu Chi) enhanced by brand management
- Product development capabilities
- Production capabilities
- Wide range of quality confectionery products

Please refer to “Business—Competitive Strengths” of this Prospectus for further details.

Business Strategy

- Continuing primary focus on the PRC market
- Leveraging on growth of sales channels
- Enhancing brand image
- Continuing focus on diverse range of products

- Enhancing production capabilities

Please refer to “Business—Business Strategy” of this Prospectus for further details.

Future Plans

- Expand the Group’s sales office network and enhance logistics support
- Enhance the Group’s marketing efforts to promote its brand
- Enhance the Group’s production capabilities

Please refer to “Business—Future Plans” of this Prospectus for further details.

Contact Details

The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the telephone and facsimile numbers are +1 (345) 949 1040 and +1 (345) 949 1048 respectively. The address of its principal place of business is Dongguan Hsu Chi Food Co., Ltd., Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, 523118, PRC and the telephone and facsimile numbers are (86) 769 2226 8955 and (86) 769 2226 4864 respectively.

THE INVITATION

- Issue Size : 125,000,000 Invitation Shares offered in Singapore and in certain other jurisdictions, comprising 10,000,000 Offer Shares, 102,500,000 Placement Shares and 12,500,000 Reserved Shares.
- The New Shares, upon issue and allotment, will rank, *pari passu* in all respects with the existing issued Shares.
- The New Shares : 125,000,000 Shares to be issued by the Company and being offered by the Company in the Invitation.
- Final Price : The Final Price will be determined following a book-building process by agreement between the Company and Cazenove on the Price Determination Date and will not be more than S\$0.85 (the Maximum Offering Price).
- Maximum Offering Price : S\$0.85 for each Invitation Share.
- Investors applying in the Public Offer and applicants for the Reserved Shares are required to pay the Maximum Offering Price, subject to a refund if and to the extent that the Final Price is less than the Maximum Offering Price. All refunds shall be without interest or any share of revenue or other benefit arising therefrom. Investors applying in the Placement (save for the Reserved Shares) are required to pay the Final Price.
- Price Determination : The Final Price will be determined following a book-building process by agreement between the Company and Cazenove on the Price Determination Date, which date is subject to change. If, for any reason, the Final Price is not agreed between the Company and Cazenove, the Invitation will not proceed and all application monies will be refunded (without interest or any share of revenue or other benefit arising therefrom) to all applicants, at their own risk (provided that such refunds are made in accordance with the procedures set out in the instructions booklet entitled “Terms, Conditions and Procedures for Application and Acceptance”). Among the factors that will be taken into account in determining the Final Price are the demand for the Invitation Shares, the prevailing market conditions and the Group’s historical performance. Notice of the Final Price will be published in one or more major Singapore newspapers, such as *The Straits Times*, *The Business Times* and *Lianhe Zaobao*, not more than two calendar days after the Price Determination Date.
- Purpose of the Invitation : The purpose of the Invitation is to raise funds for the Group in order to finance its business expansion.
- Listing Status : Prior to the Invitation, there had been no public market for the Shares. The Shares will be quoted in Singapore dollars on the Main Board of the SGX-ST, subject to admission of the Company to the SGX-ST and permission for dealing in and for quotation of the Shares being granted by the SGX-ST and the Authority not issuing a Stop Order.
- Application Procedures in Singapore : Investors in Singapore must follow the applications set forth in the instructions booklet entitled “Terms, Conditions and Procedures for Application and Acceptance”.

Lock-ups

: Each of Mr. Hsu, Chen, Mr. Hu, Chia-Hsun, Mr. Hsu, Hang, Ophira Finance Ltd. (which is wholly-owned by Mr. Hsu, Hang), Mr. Hsu, Keng, Suncove Investments Ltd. (which is wholly-owned by Mr. Hsu, Keng), and Mr. Hsu, Pu, has agreed with Cazenove, subject to certain exceptions, not to sell, pledge, charge, allot, transfer or dispose of any Shares owned as at the date of the lock-up agreement and any Shares acquired after the date of the lock-up agreement for a period of 12 months from the Listing Date. Any disposal of or transfer of any interests (direct or deemed) in Shares by these Substantial Shareholders (with the exception of Mellberg and Great Horizon) and Executive Directors before the expiry of the above 12 months moratorium, but after 6 months from the Listing Date, is subject to the prior written consent of Cazenove, such consent not to be unreasonably withheld or delayed.

Mellberg and Great Horizon have agreed with Cazenove, subject to certain exceptions, not to sell, pledge, charge, allot, transfer or dispose of any interests (direct or deemed) in Shares owned as at the date of the lock-up agreement and any Shares acquired after the date of the lock-up agreement for a period of six months from the Listing Date. In addition, Transpac Capital, Transpac Industrial and Transpac Nominees have also agreed with Cazenove, subject to certain exceptions, not to sell, pledge, charge, allot, transfer or dispose of any interests (direct or deemed) in Shares owned as at the date of the lock-up agreement and any Shares acquired after the date of the lock-up agreement for a period of six months from the Listing Date.

Each of Mr. Yu, Hung-Hsin, Mr. Chan, Wu-Yang and Mr. Chang, Hsiu-Cheng, have agreed with Cazenove, subject to certain exceptions, not to sell, pledge, charge, allot, transfer or dispose of any interests (direct or deemed) in Shares owned as at the date of the lock-up agreement and any Shares acquired after the date of the lock-up agreement for a period of six months from the Listing Date.

The Company has also agreed with Cazenove, subject to certain exceptions, not to sell, pledge, charge, allot, transfer or dispose of any Shares owned as at the date of the lock-up agreement and any Shares acquired after the date of the lock-up agreement for a period of six months from the Listing Date. See “Shareholders - Moratorium” of this Prospectus.

In addition, (1) Mr. Hsu, Hang and (2) Mr. Hsu, Keng have undertaken, subject to certain exceptions, not to sell, pledge, charge, allot, transfer or dispose of their respective shares owned as at the date of the lock-up agreement and any shares acquired after the date of the lock-up agreement in Ophira Finance Ltd. and Suncove Investments Ltd., respectively, for a period of 12 months from the Listing Date. Any disposal or transfer of any interest (direct or deemed) in shares in Ophira Finance Ltd. and Suncove Investments Ltd. by Mr. Hsu, Hang and Mr. Hsu, Keng respectively before the expiry of the above 12 months moratorium, but after six months from the Listing Date, is subject to the prior written consent of Cazenove, such consent not to be unreasonably withheld or delayed.

Proceeds from the Invitation

: Based on the Maximum Offering Price per Invitation Share of S\$0.85, the net proceeds to the Company from the issue of the New Shares are estimated to be approximately S\$98.5 million (RMB494.0 million). The Company intends to use these net proceeds in part to expand into new markets, enhance its marketing efforts, finance new production facilities and the balance for general working capital of the Group, as further described in “Use of Proceeds” of this Prospectus.

Listing and Trading	<p>: Prior to the Invitation, there was no public market for the Shares. Application has been made to the SGX-ST for permission to list all the existing issued Shares and the New Shares on the Main Board of the SGX-ST. Such permission will be granted when the Company has been admitted to the Official List of the SGX-ST. Acceptance of applications for the Invitation Shares will be conditional upon, among others, permission being granted by the SGX-ST to deal in and for quotation of all the existing issued Shares and the New Shares.</p> <p>The Shares are expected to commence trading on a “when ready” basis as early as 9.00 a.m. on 1 December 2006 (Singapore time). See “Indicative Timetable for Listing” of this Prospectus.</p> <p>The Shares will, upon their listing and quotation on the SGX-ST, be traded on the SGX-ST under the book-entry (scripless) settlement system of the CDP. Dealing in and quotation of the Shares will be in Singapore dollars. The Shares will be traded in board lot sizes of 1,000 Shares.</p>
Settlement	<p>: The Company expects to receive payment for all the Invitation Shares in the Placement and the Public Offer on or about 30 November 2006. Delivery of the share certificates representing the Invitation Shares to the CDP for deposit into the securities accounts of successful applicants is expected to be made on or about 30 November 2006. For a description of the settlement procedures for transfers of the Shares, see “Clearance and Settlement” of this Prospectus.</p>
Dividends	<p>: The Company does not have a fixed dividend policy. As a matter of general principle, in determining the Company’s dividend payout ratio in respect of any particular financial year, the Company will take into account its current desire to maintain and potentially increase dividend levels within its overall objective of maintaining sufficient capital to support its operations. If the Company declares a dividend in respect of a financial year, the dividend would generally be paid in the second or third quarter of the following financial year.</p>
Transfer Restrictions	<p>: The Invitation Shares will be subject to certain transfer restrictions. See “Transfer Restrictions” of this Prospectus.</p>

SUMMARY FINANCIAL DATA

You should read the following summary financial data in conjunction with the full text of the Prospectus, including the “Audited Combined Financial Statements of Hsu Fu Chi International Limited for years ended 30 June 2004, 2005 and 2006” together with the “Report from the auditors in relation to the audited combined financial statements of Hsu Fu Chi International Limited for years ended 30 June 2004, 2005 and 2006” as set out in “Audited Combined Financial Statements of Hsu Fu Chi International Limited for years ended 30 June 2004, 2005 and 2006” of this Prospectus.

Operating results of the Group⁽¹⁾

	FY 2004 RMB'000	FY 2005 RMB'000	FY 2006 RMB'000
	Audited	Audited	Audited
Revenue	1,443,174	1,809,425	2,056,318
Cost of sales	(865,771)	(1,128,793)	(1,273,302)
Gross profit	577,403	680,632	783,016
Other income	2,446	6,647	32,759
Selling and distribution expenses	(264,510)	(363,390)	(381,195)
General and administrative expenses	(117,409)	(132,350)	(184,955)
Profit from operations	197,930	191,539	249,625
Financial income	1,022	1,085	2,427
Financial expenses	(5,874)	(8,401)	(10,116)
Profit before tax	193,078	184,223	241,936
Income tax	(23,905)	(22,520)	(30,575)
Net profit attributable to shareholders	169,173	161,703	211,361
EPS (RMB) ⁽²⁾	0.25	0.24	0.32
EPS (fully diluted basis, RMB) ⁽³⁾	0.21	0.20	0.27

Notes: -

- (1) The financial results for the Group has been prepared in accordance with the principles of merger accounting and on the basis that the Company is the holding company of all its subsidiaries for the financial years presented rather than from the date of completion of the Restructuring Exercise.
- (2) For comparative purposes, EPS for the years under review have been computed based on the net profit attributable to Shareholders and the pre-Invitation share capital of 670,000,000 Shares.
- (3) The EPS on a fully diluted basis has been computed based on the net profit attributable to shareholders and post-Invitation share capital of 795,000,000 Shares.

Financial position of the Group

	FY 2004	FY 2005	FY 2006⁽¹⁾
	RMB'000	RMB'000	RMB'000
	Audited	Audited	Audited
Non-current assets			
Property, plant and equipment	610,570	792,510	938,325
Intangible assets	143,144	141,739	138,759
Deferred tax assets	7,887	10,699	24,160
	<u>761,601</u>	<u>944,948</u>	<u>1,101,244</u>
Current assets			
Inventories	128,835	141,000	197,735
Trade receivables	330,578	358,936	336,418
Bills receivable	2,646	7,899	15,853
Prepayments	85,792	76,556	68,046
Other receivables and deposits	6,071	4,965	20,936
Cash and bank balances	209,266	183,874	133,254
	<u>763,188</u>	<u>773,230</u>	<u>772,242</u>
Current liabilities			
Trade payables	(157,562)	(129,788)	(85,696)
Other payables and accruals	(314,100)	(332,743)	(250,605)
Bills payable	(109,186)	(197,507)	(127,170)
Short-term bank loans	—	—	(210,000)
Term loans	—	(40,000)	(20,000)
Provision for income tax	(16,807)	(3,303)	(5,583)
	<u>(597,655)</u>	<u>(703,341)</u>	<u>(699,054)</u>
Net current assets	165,533	69,889	73,188
Non-current liability			
Term loans	(104,000)	(30,000)	(30,000)
Net assets	<u>823,134</u>	<u>984,837</u>	<u>1,144,432</u>
Equity			
Share capital	264,924	264,924	264,924
Reserve fund	54,247	54,521	95,765
Accumulated profits	503,963	665,392	783,743
Total equity	<u>823,134</u>	<u>984,837</u>	<u>1,144,432</u>
NTA per Share (RMB)⁽²⁾	1.00	1.24	1.46

Notes: -

- (1) The financial position of the Group as of 30 June 2006 has been prepared in accordance with the principles of merger accounting and on the basis that the Company is the holding company of all its subsidiaries since 1 July 2003 rather than from the date of completion of the Restructuring Exercise.
- (2) For comparative purposes, NTA per share for the years under review have been computed based on the net assets of the Group after adjusting for intangible assets and deferred tax assets and the pre-Invitation share capital of 670,000,000 Shares.

EXCHANGE RATES

The mid-closing exchange rate between RMB and S\$ as of the Latest Practicable Date is RMB5.017 to S\$1.00.

The table below sets forth the high and low mid-closing exchange rates between RMB and S\$ for each month in the past six months. The table indicates the amount of RMB that may be bought with one S\$¹.

	RMB / S\$ Rate	
	High	Low
April 2006	5.069	4.962
May 2006	5.127	5.053
June 2006	5.099	5.001
July 2006	5.071	5.018
August 2006	5.076	5.040
September 2006	5.072	4.975

The following table sets forth, for each of the financial periods indicated, the average mid-closing exchange rates between the RMB and S\$, calculated by using the average of the mid-closing exchange rates between the RMB and S\$ on the last day of each month during each Financial Year.

	RMB / S\$ Rate	
	Average	Closing
FY 2004	4.818	4.818
FY 2005	4.974	4.912
FY 2006	4.909	5.050

The above exchange rates have been calculated with reference to exchange rates quoted from Bloomberg LP and shall not be construed as representation that the RMB amounts actually represent such S\$ amounts or could be converted into S\$ at the rate indicated or any other rate.⁽¹⁾

Please refer to “Exchange Controls” of this Prospectus for a description of the exchange controls that exist in the PRC.

⁽¹⁾ Source: Bloomberg LP. Please see “General and Statutory Information - Sources” of this Prospectus for information regarding use of this source.

RISK FACTORS

Investors should consider carefully the following risk factors and all other information contained in this Prospectus before deciding to invest in the Shares. They should also note that certain of the statements set forth below constitute “forward-looking statements” that involve risks and uncertainties.

If any of the following risk factors and uncertainties develops into actual events, the business, financial condition or results of operations or cash flows may be adversely affected. In such circumstances, the trading price of the Shares could decline and investors may lose all or part of their investment. To the best of the Directors’ belief and knowledge, all the risk factors that are material to investors in making an informed judgement have been set out below.

Save as disclosed in this section “Risk Factors”, the Directors are not aware of any relevant material information including trading factors or risks which have materially affected or could materially affect, directly or indirectly, the Group’s financial position and results and business operations, and investments by holders of Shares.

RISKS RELATING TO THE GROUP’S BUSINESS

The Group faces fluctuating seasonal demand

The Group enjoys peak demand for its products (especially candies) during the Sales Peak Season and lower demand for the rest of the year. See “Business—Seasonality” of this Prospectus. Correspondingly, the Group’s sales performance and production cycle is largely in tandem with such demand cycle. Production volume is increased in the Production Peak Season in anticipation of the increase in demand during the Sales Peak Season and lowered thereafter. The seasonal nature of the demand for its products (especially candies) results in fluctuation of the revenue of the Group throughout the year. The sales performance of the Group is significantly dependent on its sales volume during the Sales Peak Season. In addition, the sales performance of the Group is dependent on the length of the Sales Peak Season (from December to Chinese New Year) which vary from year to year, depending on the lunar calendar. The variation in the length of the Sales Peak Season affects the amount of Chinese New Year Candies purchased by consumers. Generally, the longer the Sales Peak Season, the greater the sales volume of the Group’s Chinese New Year Candies. Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Results of Operations and Financial Condition—Seasonality” of this Prospectus.

The Group is susceptible to fluctuations in raw material prices and supply

The Group’s profitability depends, in part, on its ability to anticipate and respond to fluctuations in raw material prices. The Group needs sufficient and timely supplies of raw materials to manufacture its products. In particular, the Group is dependent on the supply of flour, granulated sugar, sugar syrup, eggs, palm oil, peanuts, butter oil and milk powder. As these raw materials are mostly commodities, their prices and availability in suitable quality are affected by volatility in commodity markets and changes in exchange rates, climates, market supply and demand forces and governmental regulations. A reduction in supply may lead to an increase in costs or disruption to the production process. For example, disruptions to supply could be caused by avian flu. See the risk factor “The Group may be affected by the spread or outbreak of any contagious or virulent disease or other similar events in the PRC” in this Prospectus. The Group neither hedges its exposure to the fluctuations in commodity prices nor enters into any raw material supply contracts of more than one year. Generally, the Group has entered into supply contracts for its key raw materials, except for eggs. In particular, the Group has entered into annual supply contracts for certain raw materials, such as sugar and flour. However, these annual supply contracts are not sufficient to meet the Group’s requirements and there is no assurance that the counterparties to these annual supply contracts will perform their obligations. An increase in the prices of these raw materials, and the inability to source for and obtain alternative suppliers, may have a significant impact on the profit margins of affected products and hence the Group’s profitability. In FY 2005, the Group encountered significant increases in prices of raw materials but managed to mitigate to a certain extent, the impact of these increases on profit margins by increasing the selling prices of certain of its products over time. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Results of Operations and Financial Condition—Cost of Materials” of this Prospectus. However, there is no assurance that the Group will be able to pass on any future increase in costs to its customers in order to maintain its profit margins. Hence, any significant increase in the prices of raw materials could materially and adversely affect the results of its operations.

The Group faces intense competition

The competition in the confectionery market in the PRC is intense and the barriers to entry, such as production know-how, are relatively low. There are numerous international, national and regional confectionery producers and distributors in the PRC. The Group believes competition is likely to intensify. The Group's products meet direct and indirect competition from a wide range of international, national and regional products across the PRC. The Group may face competition from existing competitors introducing new products, lowering their prices and intensifying advertising campaigns, or from new players entering the market. To sustain its competitive edge, the Group may be required to make substantial investments in product research, product development, promotion and marketing and, where necessary, reduce product selling prices. There is no assurance that the Group will be able to compete successfully against its competitors. In the event that the Group is not able to withstand the competition, the Group's profitability and operations would be adversely affected. Please see "Business - Competition" and the risk factor "The Group's business may be adversely affected by imitation, counterfeit or similar products" of this Prospectus.

The Group is reliant on its key management personnel, in particular, its Executive Chairman

A majority of the Group's key management personnel have extensive management and operational experience in the confectionery, snack food and other industries. The continued success of the Group, to a large extent, depends on its ability to retain the services of its key management personnel, in particular, its Executive Chairman, Mr. Hsu, Chen. The loss of certain existing key personnel, in particular, its Executive Chairman, without suitable replacements, or the inability to attract and retain suitably qualified personnel will adversely affect the Group's operations and hence, its revenue and profits. As of the Latest Practicable Date, the Group did not maintain insurance coverage for the loss of services of any of its key management personnel. There is no assurance that the Group will be able to retain the services of such key executives in the future.

The Group faces the risk of food contamination and is exposed to potential product liability

Food contamination is a risk inherent in the food industry. It is not possible to completely eliminate the risk of contamination during the manufacturing process. Consumers may complain about product quality, health hazards, illness and other adverse side effects resulting from their consumption of the Group's products, and be exposed to claims relating to possible product contamination, any of which could result in costly litigation. The Group does not maintain any insurance coverage against such risks. The Group's business may be adversely affected by negative publicity resulting from the publication of industry findings, research reports or health concerns relating to its products. Such negative publicity may decrease consumer demand for the Group's products and hence adversely affect its profitability. There is no assurance that the Group will not face any complaints or litigation about the safety or quality of its products.

The Group does not possess certain Certificates of Real Estate Ownership and Certificates of Land Use Right in respect of certain buildings and land used by the Group

Most of the Group's production activity is carried out by Dongguan Hsu Chi, one of the PRC-incorporated subsidiaries of the Group. Dongguan Hsu Chi currently operates four factories:-

- "General Factory" (located at 东莞市东城区周屋工业区狮长路 Shichang Road, Zhouwu Industrial District, Dongcheng, Dongguan),
- "Factory No. 5" (located at 东莞市东城区周屋工业区狮长路 Shichang Road, Zhouwu Industrial District, Dongcheng, Dongguan),
- "Factory No. 1" (located at 广东省东莞市东城区周屋工业区 Zhouwu Industry Road, Zhouwu Industrial District, Dongcheng, Dongguan) and
- "Factory No. 3" (located at Zhouwu Village, Dongcheng District 东城区周屋村).

In this connection, the property interests owned by Dongguan Hsu Chi are described in "Business - Properties" of this Prospectus. According to the PRC laws and regulations on the administration of state-owned land, the Certificate of Land Use Right and the Certificate of Real Estate Ownership are respectively the only legal evidence of land use right and real estate ownership right.

The Group has received the Certificate of Land Use Right for the land where the General Factory is located in July 2006 and has submitted its application for the Certificate of Real Estate Ownership for buildings of

General Factory. For FY 2006, production at the General Factory contributed to approximately 57% of the total production volume. However, the Group does not possess the Certificate of Real Estate Ownership in respect of certain buildings on the land where the General Factory is located.

The Group also does not possess the Certificate of Land Use Right in respect of the land or the Certificates of Real Estate Ownership in respect of certain buildings on the land where Factory No. 5 is located. In the event that the Group is unable to obtain the Certificate of Land Use Right and the government grants the land use rights to another company and the said company obtains the relevant certificate for land use right, it is possible for the Group to be asked to evacuate the land of Factory No. 5 by the said company by way of a civil claim. In such event, the Group may lose its investment on the land and building of Factory No. 5. The total amount paid by the Group for the land and building of Factory No. 5 up to 30 June 2006 was approximately RMB 110.5 million. The expansion of the Group's production facilities in Dongguan (as described in "Business—Future Plans" of this Prospectus) is at Factory No. 5. For FY 2006, production at Factory No. 5 contributed to approximately 4% of the total production volume. With the expansion of Factory No. 5, this percentage will increase substantially, if the increase in productive capacity at Factory No. 5 is utilized. See "Description of Expansion in Dongguan" in "Business—Future Plans—Enhancing production capabilities" and "Business—Production facilities and capacity" of this Prospectus.

In addition, the Group leases land and buildings for Factory No. 1 from Fucheng Zhouwu Administrative District (the "Lessor"). Since the Certificate of Land Use Right and Certificates of Real Estate Ownership of the Lessor to the leased land and building have not been made available to the Group, it is not possible for the Group to ascertain whether the lease is valid under PRC law.

The Group is also in the process of obtaining the Certificate of Land Use Right for the regional logistic centre in Liaoning and the Certificate of Land Use Right and Certificate of Real Estate Ownership for completed buildings of the logistics and production base in Sichuan.

There is no assurance that the Group can or will obtain any of the relevant certificates in respect of the General Factory, Factory No. 5 and the properties in Liaoning and Sichuan, as described above, in a timely manner, or at all. There is also no assurance that the Group has a valid lease in respect of Factory No. 1. In addition, there is no assurance that the Group's use and occupation of the affected land and buildings will not be challenged. If the Group fails to obtain the relevant certificates or its right to use or occupy the relevant land and buildings is challenged, it may have to vacate the affected land and buildings, which will significantly disrupt the Group's operations and business. The Group would consequently suffer the loss of its investment in the affected land and buildings. The Group may not be able to acquire or lease suitable replacement or at acceptable prices.

See "Business—Properties" of this Prospectus.

The Group may face labour shortages and rising labour costs

Most of the Group's employees are employed as production workers and sales staff. See "Business—Staff" of this Prospectus. The Group has observed an overall tightening of the labour market and currently expects such tightening to continue in the near future. A tight labour market (i.e. where the supply is less than demand) could push up salaries. To compete, the Group may need to increase the salaries of its employees to attract and retain them. The increase in cost will have an adverse effect on its financial performance. Further, if the labour market continues to tighten, the Group may not be able to employ sufficient number of suitable employees in a timely manner or at all, which will have an adverse effect on the Group's operations and business.

The Group faces intense competition for retail space at major hypermarket and supermarket chains

In recent years, the Group has faced intense competition for suitable retail spaces at major hypermarket and supermarket chains. Such competition is expected to continue and could result in the Group incurring more costs (for example, in paying higher prices to secure preferred locations) as well as being denied the use of suitable locations for displaying its products. Most major hypermarket and supermarket chains in the PRC do not commit to long term display arrangements for confectionery products and display arrangements are usually negotiated on an annual basis. There is no assurance that the Group could continue to obtain suitable display locations at major hypermarket and supermarket chains.

The Group's business may be adversely affected by imitation, counterfeit or similar products

The taste, quality and packaging of the Group's products are essential in making them appealing to consumers as well as building brand awareness. The Group seeks to protect its intellectual property by registering, to the extent practicable, the Group's trademarks and patents in the PRC and in the overseas markets

in which it operates. It may, however, be difficult to prevent competitors from successfully imitating the Group's recipes or packaging for its products. The Group may not have sufficient resources or effective means (whether through litigation or otherwise) to stop infringement of the Group's intellectual property or obtain adequate compensation or remedy. In addition, the validity and scope of claims relating to unfair competition could involve complex legal and factual issues and analysis, and the outcome of such claims could be highly uncertain. The Group's products are also subject to competition from similar or alternative products. If the Group's competitors successfully imitate or improve upon the Group's recipes or packaging for its products, or provide comparable, better or more appealing products at competitive prices, the Group's market share may decrease. A substantial loss in market share could adversely and materially affect the Group's business, financial performance and brand value. Please see "Business—Competition" and the risk factor "The Group faces intense competition" of this Prospectus.

The Group may be exposed to intellectual property infringement or similar claims

The Group has been, and may in the future be, subject to intellectual property infringement or similar claims and actions, such as fines by government authorities regarding violations of intellectual property laws. An adverse determination in any such litigation or investigation against the Group could subject it to significant liability, including payment of damages, or fines or compliance with injunctions. In addition, the Group may be required to re-design the packaging or cease production or sales of the affected products. In addition, protracted investigation or litigation may lead to existing or potential consumers or customers cancelling, deferring or reducing their purchase of the Group's products until such investigation or litigation has been resolved. See "Business—Intellectual Property" of this Prospectus.

The Group may be affected by the spread or an outbreak of any contagious or virulent disease or other similar events in the PRC

The Group may be affected by the spread or outbreak of any contagious or virulent diseases, such as SARS (severe acute respiratory syndrome) or avian flu, or other similar events, in the PRC which could have a material adverse effect on its operations as well as the operations of its customers or suppliers. The Group or its suppliers or customers may be required to temporarily shut down any facility that is affected by such diseases - for example, if employees at a facility are infected. In addition, the Group's reliance on eggs as a major type of raw material makes it particularly vulnerable to outbreaks of avian flu in the PRC because avian flu could lead to a culling of poultry, which will reduce the supply of eggs. The Group may not be able to find any suitable substitute ingredients or may not obtain them in sufficient quantities or at acceptable prices. Any disruption to business operations or increase in costs as a consequence of these diseases could have a material adverse impact on the Group's operations, business and financial performance.

The Group may face shortage in the supply of electricity or water

The Group requires electricity and water to manufacture its products. The Group has no control over the supply of electricity and water to its manufacturing facilities and could face supply shortages. Although the Group has a limited back up electricity supply at its production facilities in Dongguan, it is insufficient to meet the Group's production needs in the event of any disruption in the normal power supply in Dongguan and there is no assurance that production will not be disrupted. The Group has no back up water supply. Any electricity or water shortage will have an adverse impact on the Group's manufacturing activities. If such shortage prevents the Group from carrying on its manufacturing activities over a sustained period, especially during the Production Peak Season, the Group's operations, business, sales and profitability would be materially and adversely affected.

The Group is vulnerable to any disruption at Dongguan because its production facilities and Sales Headquarters are located there

As of the Latest Practicable Date, the Group's production facilities and Sales Headquarters are located at Dongguan. A fire, natural calamity or any event (whether natural or man made) that could cause significant damage to the Group's facilities at Dongguan or cause substantial disruptions to its operations at Dongguan would have a material adverse impact on the Group's operations, business and financial condition. There is no assurance that any precautionary or safety measure taken by the Group could prevent damage to the Group's production facilities or disruptions to its operations. In addition, the Group's existing insurance policies may not adequately compensate for the damage to or loss of its major assets.

The Group depends on its Sales Headquarters and sales offices to generate sales

As discussed in “Business—Sales and Distribution” of this Prospectus, the Group has built its sales and distribution operations around its Sales Headquarters which controls the Group’s sales offices. The effectiveness of this business model depends on the ability of the Sales Headquarters to control the sales offices of the Group by performing the functions described in “Business—Sales and Distribution—Sales in the PRC and sales network” of this Prospectus.

The Sales Headquarters’ role will become more critical as the Group’s network of sales offices grows and covers more areas. The Group may not be able to retain its managers or sales personnel, who may join its competitors or leave the Group. Generally, there are no contractual restrictions on the Group’s employees joining its competitors. The Group may need to change its business model in anticipation of, or in response to, such changes. There is no assurance that the Group could continue to implement this business model successfully. The Group’s operations and financial performance may be adversely affected if the Group could not successfully manage and implement this business model.

The Group’s business is subject to changes in consumer preferences and tastes

The Group’s key categories of products are Candy Products, Cake and Cookie Products and Sachima Products. The Directors believe that the marketability of the Group’s key categories of products depends on consumer preferences and tastes. To remain competitive, the Group needs to anticipate changing demographics and product preferences, for example by taking into account the increasing public concern on obesity and other health-related matters. The Group may fail to anticipate a change or may fail to react to a change promptly. This is made more challenging because the Group has a wide range of products that are marketed to many different segments of the population. If the Group fails to identify or anticipate changes in preferences or fails to manufacture products that suit such preferences in a timely manner or at all, the Group will face a decline in the demand for its products.

The Group may not be able to implement its future plans successfully or at all

The Group’s future plans may not be implemented successfully or at all. To carry out such plans, the Group would be required to pay for expansion costs, such as land acquisition and building construction costs, leasing or rental expenses, machinery and equipment acquisition or leasing costs, salaries for additional staff and costs of setting up or enhancing information systems. In addition, the Group may incur cost overruns and encounter construction delays, equipment delays or shortages, labour shortages and disputes and production start-up problems that could affect the Group’s ability to meet market demands. For example, the Group may not be able to obtain funds for such expansion or obtain loans or operating leases with attractive terms. While the Group may also consider diversifying its markets beyond the PRC by selling more of its products outside the PRC, it has yet to establish a meaningful track record for sales outside the PRC. There is no assurance that the Group can implement its overseas market strategy at all.

Even if the Group is able to implement its future plans, it may not be able to manage its expanded operations effectively. The Group may not be able to attract and retain the management personnel and other employees necessary to support its expanded operations and it may have to divert its existing management personnel to establish and oversee the expanded operations. In addition, there is no assurance that the Group can implement its future plans profitably. The Group may not be able to efficiently and effectively manage geographically dispersed operations. If the Group’s revenue does not increase sufficiently to offset the expenses associated with its expansion efforts, its operating results could be adversely affected. Any failure to manage the Group’s growth effectively could have a material adverse impact on its prospects, business, financial condition and results of operation. Please see “Business—Future Plans” of this Prospectus.

The Group’s business is subject to PRC government regulations

In order to manufacture or distribute food products in the PRC, an entity must obtain various certificates, permits and licences (as described in “Business—Government Regulations in the PRC” of this Prospectus) from the relevant government authorities.

The withdrawal or suspension of any of the Group’s certificates, permits or licences, or the imposition of any penalties, as a result of any infringement of any regulatory requirements will have an adverse impact on its operations and business. In addition, these certificates, permits and licences are subject to periodic renewal and

assessment by the relevant government authorities and the standards of compliance required in connection with such assessment may change from time to time. Changes in PRC law and regulations or their implementation may require the Group to obtain additional approvals, certificates, permits or licences from the relevant government authorities in the PRC for the Group to carry on its operations in the PRC.

The Group may be required to incur additional costs to ensure that it complies with any of the changes described above. This will add to the cost of carrying on business, and will materially and adversely affect the Group's financial performance if such additional costs become material. In addition, there is no assurance that the Group will be able to obtain the additional approvals, certificates, permits or licences promptly or at all, and may be required to cease operations because it lacks such approvals, certificates, permits or licences.

The Group's product development efforts may not be successful

The Group adopts a multi-product strategy and offers a diverse range of confectionery products catering to the tastes and preferences of consumers in different market segments. There is no assurance that any product development efforts undertaken by the Group will be successful. In addition, there is no assurance that any such product development efforts will result in commercially viable products or that any new products so developed will be approved (where such approval is required) by the relevant regulatory authorities. Poor marketing strategy could hinder the successful commercialisation of these new products. Therefore, it is not certain that the Group will be able to leverage or profit from its product development efforts.

RISKS RELATING TO THE PRC

The Group is vulnerable to changes in the social, political and economic conditions of the PRC, which are subject to uncertainties

As of the Latest Practicable Date, the Group had a sales network of 56 operating sales offices in the PRC and all of its production facilities were located in the PRC. In FY 2006, more than 95% of the Group's revenue was derived from selling its products in the PRC. The Group is reliant on the PRC market. Changes in the social, political and economic environment in the PRC and policies adopted by the PRC government to regulate its economy may materially and adversely affect the business, operating results and financial condition of the Group.

The PRC economy has, since 1949, been a centrally planned economy subject to a series of state economic plans adopted by the PRC government. Over the past 20 years, the PRC government has been reforming the economic and political systems in the PRC. Such reforms have resulted in significant economic and social advancement. Many of the reforms are unprecedented and are expected to be refined and improved upon while political, economic and social factors may also lead to further re-adjustment. The refinement and re-adjustment process, however, may not always have a positive effect on the Group's business, operating results and financial condition. There is no assurance that the PRC government will continue to pursue economic reforms.

There is no assurance that the performance and profitability of the Group will not be adversely affected by changes in social, political or economic conditions of the PRC or changes in PRC laws and regulations, such as the method of taxation, and the imposition of additional restrictions on currency conversion and overseas remittance of funds.

The Group is subject to PRC environmental protection laws and regulations

The Group is required to comply with the environmental protection laws and regulations promulgated by the state and local governments of the PRC and the prescribed standards relating to the discharge of waste water, solid wastes, effluent and gases. These regulations empower local governments to impose penalties on those companies which do not comply with these laws and regulations.

In the course of the Group's manufacturing process, waste water and materials are regularly discharged. Although the Group has installed waste treatment facilities to treat such discharges, there can be no assurance that the Group will at all times be in full compliance with the laws and regulations promulgated by the state and local governments of the PRC. Any failure by the Group to treat the discharge of waste generated from its manufacturing process in accordance with the relevant laws and regulations or to cause its production facilities to meet any other applicable environmental protection requirements could subject the Group to fines or other penalties or result in the Group being required to take remedial action. The Group's business or reputation may be adversely affected if any of these risks materialise.

In addition, the promulgation of any new environmental laws or regulations, especially those the compliance of which would require the Group to incur additional capital expenditures, would increase its business costs and adversely affect its financial performance.

PRC foreign exchange control may limit the Company's ability to utilise its revenue effectively and affect its ability to receive dividends and other payments from the Company's PRC-incorporated subsidiaries

The Company's PRC-incorporated subsidiaries are foreign investment enterprises ("FIEs") and are subject to the PRC rules and regulations on currency conversion. In the PRC, the State Administration for Foreign Exchange ("SAFE") regulates the conversion of the RMB into foreign currencies. Currently, foreign investment enterprises are required to apply to SAFE for "Foreign Exchange Registration Certificates for FIEs". With such registration certifications (which need to be renewed annually), FIEs are allowed to open foreign currency accounts including the "current account" and "capital account". Currently, conversion within the scope of the "current account" (e.g. remittance of foreign currencies for payment of dividends, etc.) can be effected without requiring the approval of SAFE. However, conversion of currency in the "capital account" (e.g. for capital items such as direct investments, loans, securities, etc.) still requires the approval of SAFE.

The applicable law in respect of conversion of RMB into other currencies is the Regulation for Foreign Exchange Controls of the PRC ("Regulation"), which came into effect on 1st April 1996 and amended as of 14 January 1997.

Under the Regulation:

- (a) conversion of RMB into foreign currencies for the use of recurring items, including the distribution of dividends and profits to foreign investors of FIEs is permissible and FIEs are permitted to remit foreign currencies from their current account;
- (b) foreign currencies may be paid from bank accounts in the PRC upon presentation of board resolutions which authorise the distribution of profits or dividends and subject to compliance with other requirements; and
- (c) conversion of RMB into foreign currencies for capital items, such as repatriation of capital, repayment of loans and for securities investment, is still under control.

PRC regulatory authorities may impose further restrictions on the convertibility of the RMB. As the Company's PRC-incorporated subsidiaries generate substantially all of the Group's revenue and this revenue is denominated in mainly RMB, any future restrictions on currency exchanges may limit the Company's ability to repatriate such revenue for the distribution of dividends to its shareholders or for funding its other business activities outside the PRC.

The Group may be affected by acts of God, war, epidemics and terrorist attacks in the PRC

The business of the Group is subject to the general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond the control of the Group may adversely affect the economy, infrastructure and livelihood of the people of the PRC. Many major cities in the PRC are under the threat of flood, earthquake, sandstorm or drought. The Group's business, operating results and financial condition may be adversely affected in a material respect if such natural disasters occur.

War and terrorist attacks may cause damage or disruption to the Group and its employees, facilities, sales channels, markets and customers, any of which could materially impact the Group's business, financial performance and condition or Share price. The potential for war or terrorist attacks may also cause uncertainty and cause its business to suffer in ways that the Group cannot currently predict.

The Group faces increasing effective tax rate and may not be successful in obtaining tax incentives

The Group faces increasing effective tax rate in the PRC and there is no assurance that the Group could mitigate such increase by obtaining tax incentives that it has applied for.

On 30 December 2001, Dongguan Hsu Chi qualified as a Technologically Advanced Foreign Invested Enterprise (技术先进型外商投资企业), which entitles it to a favourable tax rate of 12%. This tax status expired on 31 December 2005 and the Company is no longer entitled to this tax incentive.

On 30 May 2006, Dongguan Hsu Chi qualified for the High and New Technology Enterprise (高新技术企业), which entitles it to a reduced tax rate of 18% from 1 January 2006 to 31 December 2007.

The Group may apply for other tax incentives in the future. There is no assurance that the Group will be successful in its applications for such tax incentives.

RISKS RELATING TO THE COMPANY'S INCORPORATION UNDER CAYMAN ISLANDS LAW

Rights and protection accorded to Shareholders may be different from those applicable to shareholders of a Singapore incorporated company

The Company is incorporated in the Cayman Islands as an exempted company under the Cayman Companies Law. The Singapore Companies Act may provide shareholders of Singapore incorporated companies rights and protection of which there may be no corresponding or similar provisions under the Cayman Companies Law. As such, if you invest in the Shares, you may or may not be accorded the same level of shareholder rights and protection that a shareholder of a Singapore incorporated company may be accorded under the Singapore Companies Act.

In addition, most of the Directors and the key executive management of the Company are non-residents of Singapore, and substantially all of the assets of these persons are located outside Singapore. As a result, it could be difficult for investors to effect service of process in Singapore, or to enforce a judgement obtained in Singapore against the Company or any of these persons.

A summary of certain provisions under the Cayman Islands company law is set out in Appendix B of this Prospectus and a summary of the memorandum of association and selected Articles of the Company is set out in Appendix A of this Prospectus. See also "Appendix D—Comparison of Cayman Islands Company Law with Singapore Company Law". Explanatory statements on specific issues have been set out in "Take-overs", "Purchase by the Company of its Own Shares" and "Attendance at General Meetings" of this Prospectus. Each of the summaries and explanatory statements is not intended to be and does not constitute legal advice and any person wishing to have advice on the differences between the Cayman Companies Law and the Singapore Companies Act and/or the laws of any jurisdiction with which he is not familiar is recommended to seek independent legal advice. Copies of the Memorandum of Association and Articles of the Company are available for inspection at such place and time as set out in the section entitled "General and Statutory Information - Documents available for Inspection" of this Prospectus.

RISKS RELATING TO OWNERSHIP OF SHARES

Control by the Substantial Shareholders of approximately 80.1 per cent. of the Company's post-Invitation share capital may limit your ability to influence the outcome of decisions requiring the approval of Shareholders

The Company's Substantial Shareholders, as described in the section "Shareholders" of this Prospectus will own, in aggregate, approximately 80.1 per cent. of the Company's post-Invitation, upon completion of the Invitation. Therefore, such Substantial Shareholders will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of directors and the approval of significant corporate transactions. In particular, Mr. Hsu, Chen, Mr. Hsu, Hang, Ophira Finance Ltd. (which is wholly-owned by Mr. Hsu, Hang), Mr. Hsu, Keng, Suncove Investments Ltd. (which is wholly-owned by Mr. Hsu, Keng) and Mr. Hsu, Pu will own, in aggregate, 59.0 per cent. of the Company's post-Invitation share capital and will collectively have veto power with respect to any Shareholder action or approval requiring a majority vote except where they are required by the rules of the Listing Manual to abstain from voting. Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in control of the Group, that may benefit the Shareholders.

Investors in the Shares will face immediate and substantial dilution in the book value per Share and may experience future dilution

The Maximum Offering Price of S\$0.85 per Share is substantially higher than the NTA per Share of S\$0.37 as of 30 June 2006 based on the post-Invitation issued share capital. Thus, there is an immediate and substantial dilution in the NTA per Share for investors who subscribe for Shares pursuant to the Invitation. If the Company

was liquidated for NTA immediately following the Invitation, each shareholder subscribing to the Invitation would receive less than the price they paid for their Shares. Details of the immediate dilution of the Shares incurred by new investors are described in “Dilution” of this Prospectus.

The Company requires additional funding for its future growth

The issue proceeds from the Invitation are not sufficient to fully cover the estimated costs of implementing the future growth plans described in “Business—Future Plans” of this Prospectus. In addition, the Group may find other opportunities to grow its business, such as through acquisitions, which cannot be predicted at this juncture. To meet all or any of these financing needs, it may be necessary to raise additional funds after the Invitation. Such fund raising (if successful) can be accomplished through various or a combination of means, such as issuing new Shares or incurring debt financing. If the Company fails to procure the additional funding required to meet the needs of its business growth, the Group’s prospects and financial performance could be adversely affected.

If new Shares are issued after the Invitation, they may be priced at a discount to the then prevailing market price of the Shares trading on the SGX-ST, in which case existing shareholders’ equity interest may be diluted. If the Group fails to utilise the new equity to generate a commensurate increase in earnings, the Company’s EPS will be diluted, and this could lead to a decline in the market price of the Shares. Any additional debt financing may, apart from increasing the Group’s interest expense and gearing, contain restrictive covenants with respect to dividends, future fund raising exercises and other financial and operational matters.

The Shares have never been publicly traded and the Invitation may not result in an active or liquid market for the Shares

Before the Invitation, there has been no public market for the Shares. The Company has received a letter of eligibility from the SGX-ST to have its Shares listed and quoted on the Main Board of the SGX-ST. However, an active public market may not develop or be sustained after the Invitation. If an active market for the Shares does not develop after the Invitation, the market price and liquidity of its Shares may be adversely affected. Although it is currently intended that the Shares will remain listed on the SGX-ST, there is no assurance of the continued listing of the Shares.

Exchange rate fluctuations may adversely affect the value of the Company’s dividends

Dividends, if any, in respect of the Shares will be declared in RMB and converted by the Company into Singapore dollars for those investors whose Shares are held through CDP. See “Dividend Policy” of this Prospectus. Fluctuations in the exchange rate between the Singapore dollar and the RMB will affect, among other things, the Singapore dollar value of the Company’s dividends, if any, declared in RMB and paid in Singapore dollars.

INVITATION STATISTICS⁽¹⁾

Maximum Offering Price	S\$0.85
-------------------------------	---------

NTA ⁽²⁾

NTA per Share of the Group as of 30 June 2006:-

(a) before adjusting for the estimated net proceeds from the issue of the New Shares and based on the pre-Invitation share capital of 670,000,000 Shares	S\$0.29
(b) after adjusting for the estimated net proceeds from the issue of the New Shares and based on the post-Invitation share capital of 795,000,000 Shares	S\$0.37

Premium of Final Price (being the Maximum Offering Price of S\$0.85) over the NTA per Share as of 30 June 2006:-

(a) before adjusting for the estimated net proceeds from the issue of the New Shares and based on the pre-Invitation share capital of 670,000,000 Shares	193.1%
(b) after adjusting for the estimated net proceeds from the issue of the New Shares and based on the post-Invitation share capital of 795,000,000 Shares	129.7%

Earnings

Historical net EPS of the Group for FY 2006 based on the pre-Invitation share capital of 670,000,000 Shares	S\$0.06
---	---------

Price Earnings Ratio

Historical PER based on the Final Price (being the Maximum Offering Price of S\$0.85) and the historical net EPS, of the Group for FY 2006	14.2 times
--	------------

Net Operating Cash Flow ⁽³⁾

Historical net operating cash flow per Share of the Group for FY 2006, based on the pre-Invitation share capital of 670,000,000 Shares	S\$0.04
--	---------

Price to Cash Flow Ratio

Ratio of Final Price (being the Maximum Offering Price of S\$0.85) to historical net operating cash flow per Share of the Group for FY 2006 based on the pre-Invitation share capital of 670,000,000 Shares	21.3 times
---	------------

Market Capitalisation

The Company's market capitalisation based on the post-Invitation share capital of 795,000,000 Shares and the Maximum Offering Price of S\$0.85	S\$675.75 million
--	-------------------

Notes:-

- (1) The translation was based on the mid-closing exchange rate of RMB5.017:S\$1.00 as at the Latest Practicable Date. No representation is made that the RMB amount stated can be converted at that rate or any other rate.
- (2) The NTA is computed based on the net assets of the Group and adjusted for intangible assets and deferred tax assets.
- (3) Net operating cash flow is defined as net cash generated from operating activities as set out in sub-section "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Cash Flows" of this Prospectus.

USE OF PROCEEDS

Based on the Maximum Offering Price of S\$0.85 for each Invitation Share, the net proceeds from the issue of 125,000,000 New Shares, after deducting the commissions and other estimated offering expenses payable in relation to the issue and sale of the New Shares (estimated to be approximately S\$7.8 million (which is equivalent to approximately 7.3% of the gross proceeds or equivalent to S\$0.07 of each Singapore dollar of the gross proceeds)), are estimated to be approximately S\$98.5 million (RMB494.0 million)⁽¹⁾. A S\$0.01 decrease in the Maximum Offering Price of S\$0.85 per Invitation Share would decrease the net proceeds to the Company by S\$1.3 million.

The Company intends to use the net proceeds for the following purposes:-

- approximately S\$19.9 million⁽¹⁾ (RMB100.0 million) (which is equivalent to S\$0.19 of each Singapore dollar of the gross proceeds) for expanding into new markets through expansion and/or improvements to the Group's sales and distribution network and for financing new regional logistics centres and warehouses;
- approximately S\$14.0 million⁽¹⁾ (RMB70.0 million) (which is equivalent to S\$0.13 of each Singapore dollar of the gross proceeds) for enhancing the Group's marketing efforts;
- approximately S\$29.9 million⁽¹⁾ (RMB150.0 million) (which is equivalent to S\$0.28 of each Singapore dollar of the gross proceeds) for financing new production facilities for confectionery products; and
- the balance of approximately S\$34.7 million (RMB174.0 million)⁽¹⁾ (which is equivalent to S\$0.33 of each Singapore dollar of the gross proceeds) for use as general working capital of the Group.

Although the net proceeds are not sufficient to fully cover the estimated costs of implementing the future growth plans described in "Business—Future Plans" of this Prospectus, the Company expects to finance the balance amount from a variety of sources, including (without limitation) cashflow from operations, cash resources and bank loans as described therein, and hence it is not necessary to prioritise the use of the net proceeds. However, there is no assurance that the Company will be able to raise the funds required—see the risk factor "The Company requires additional funding for its future growth" in the section "Risk Factors" of this Prospectus.

The foregoing discussion represents the Company's best estimate of its allocation of the net proceeds of this Invitation based upon its current plans and estimates regarding its anticipated expenditures. Actual expenditures may vary from these estimates and the Company may find it necessary or advisable to reallocate the net proceeds within the categories described above or to use portions of the net proceeds for other purposes. In the event that the Company decides to reallocate the net proceeds of this Invitation for other purposes, the Company will publicly announce its intention to do so through a SGXNET announcement to be posted on the Internet at the SGX-ST website, <http://www.sgx.com>.

The estimated expenses payable by the Company in connection with the Invitation are approximately S\$7.8 million. A breakdown of these expenses is as follows:

	S\$	As a percentage (%) of the proceeds from the Invitation
Listing fees	0.1 million	0.1
Professional fees and charges	3.2 million	3.0
Underwriting and placement commission at the rate of 2.5 per cent. (which amounts to S\$0.02 per Share) and brokerage and assuming that the additional incentive commission at the rate of 0.35 per cent. (which amounts to S\$0.003 per Share) is paid	3.9 million	3.6
Miscellaneous expenses	0.6 million	0.6
Total estimated expenses	7.8 million	7.3

Notes:-

- (1) The translation was based on the mid-closing exchange rate of RMB5.017:S\$1.00 as at the Latest Practicable Date. No representation is made that the RMB amount stated can be converted at that rate or any other rate.

There is no minimum amount which, in the reasonable opinion of the Directors, must be raised in the Invitation.

Pending the deployment of the net proceeds from the issue of the New Shares as aforesaid, the funds will be placed in deposits with banks and institutions, or used for investment in short-term money market instruments or debt instruments as the Directors may deem fit.

DIVIDEND POLICY

The Company has not declared any dividends and does not have a fixed dividend policy.

Hsu Fu Chi Holdings, the intermediate holding company, has declared or paid the following dividends for FY 2004, FY 2005 and FY 2006.

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
	(HK\$'000)	(HK\$'000)	(HK\$'000)
Hsu Fu Chi Holdings	40,000	Nil	50,116

As of the date of this Prospectus, there was no outstanding dividend payable.

As part of the preparation for the Invitation, the Board of Directors has considered the general principle that it currently intends to apply when recommending dividends for approval by the Shareholders or when declaring any interim dividends. The actual dividend that the Company's Directors may recommend or declare in respect of any particular financial year or period will be subject to the general principles outlined below as well as any other factors deemed relevant by the Board of Directors.

As a matter of general principle, in determining the Company's dividend payout ratio in respect of any particular financial year, the Company will take into account its current desire to maintain and potentially increase dividend levels within its overall objective of maintaining sufficient capital to support its operations. If the Company declares a dividend in respect of a financial year, the dividend would generally be paid in the second or third quarter of the following financial year.

For a summary of relevant provisions in the Articles in respect of dividends and distributions, please see "Appendix A—Summary of Memorandum of Association and Selected Articles of the Company—3(a)—Dividends and distributions"; and for a summary of Cayman Islands company law on dividends and distributions, please see "Appendix B—Summary of Cayman Islands Company Law—(6) Dividends and distributions" of this Prospectus.

Subject to the Cayman Companies Law, the Company in general meeting may from time to time declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Directors.

The amount of the Company's past dividends is not indicative of the amount that the Company will pay in the future. Future dividends will be paid by the Company as and when approved by its Shareholders and Directors. Any such dividend payments will be subject to the level of its future earnings, cash flow, financial condition, projected levels of capital expenditures and investment plans, including such legal or contractual restrictions as may apply from time to time. There can be no assurance that dividends will be paid in the future or as to the timing of any dividends that are to be paid in the future.

The Company will declare cash dividends, if any, in RMB. For Depositors whose Shares are held through CDP, CDP will make the necessary arrangements to receive the dividends from the Company in S\$ equivalent at such foreign exchange rate or rates as the Company may determine for onward distribution to such Depositor entitled thereto. Neither the Company nor CDP will be liable for any loss howsoever arising from the conversion of the dividend entitlement of Depositors holding their Shares through CDP into S\$ equivalent.

You should note that all the foregoing statements are merely statements of the Company's present intention and shall not constitute legally binding statements in respect of its future dividends which may be subject to modification (including reduction or non-declaration thereof) in the Directors' sole and absolute discretion. No inference should or can be made from any of the foregoing statements as to the Company's actual future profitability or its ability to pay dividends in any of the periods discussed.

For information relating to taxes payable in respect of certain jurisdictions on dividends, please refer to "Taxation" of this Prospectus.

SHARE CAPITAL

The Company (Registration Number CT-175834) was incorporated in Cayman Islands on 18 October 2006 under the Cayman Companies Law as an exempted company with limited liability under the name of Hsu Fu Chi International Limited. As of the date of incorporation, the Company's authorised share capital was S\$10,000 comprising 1,000,000 ordinary shares of S\$0.01 each. As of the date of this Prospectus, the Company's issued share capital was S\$6,700,000 fully paid. The Shares are in registered form.

More than 10% of the Company's share capital has been paid for with assets other than cash within the period of 3 years before the date of lodgment of this Prospectus with the MAS. See "Restructuring Exercise" of this Prospectus.

Save for the issue of the New Shares pursuant to the Invitation, there is no undertaking to increase the Company's capital.

No resolutions, authorisations and approvals by virtue of which any shares or units of shares may be issued have been passed or granted, except those disclosed below.

By written resolutions of the sole director of the Company dated 18 October 2006, the sole director of the Company approved, *inter alia*, the issue of one nil paid share of S\$0.01 to Codan Trust Company (Cayman) Limited, the subscriber of the Company's memorandum of association and the issue of further 999,999 shares of S\$0.01 each, as nil paid, to Mr. Hsu, Chen. Thereafter, but on the same date, the said one share was subsequently transferred from Codan Trust Company (Cayman) Limited to Mr. Hsu, Chen.

By written resolutions of the Shareholders dated 30 October 2006, the Shareholders approved, *inter alia*, the following:-

- the increase of the Company's authorised share capital from S\$10,000 divided into 1,000,000 ordinary shares of S\$0.01 each to S\$30,000,000 divided into 3,000,000,000 ordinary shares of S\$0.01 each;
- the acquisition by the Company of the entire issued share capital of Hsu Fu Chi Holdings (including the crediting, as fully paid, of the nil paid shares of the Company held by Mr. Hsu, Chen and the issue of 669,000,000 Shares, credited as fully paid), details of which are set out in "Restructuring Exercise" of this Prospectus;
- the adoption of a new set of Articles;
- the allotment and issue of the New Shares which are the subject of the Invitation. The New Shares, when allotted, issued and fully paid up, will rank *pari passu* in all respects with the existing issued and fully paid up Shares;
- that authority be given to the Directors to:
 - (i) allot and issue Shares (other than the New Shares); and
 - (ii) issue convertible securities and any Shares in the Company pursuant to convertible securities (whether by way of rights, bonus or otherwise)

at any time and upon such terms and conditions whether for cash or otherwise and for such purposes and to such persons as the Directors may think fit for the benefit of the Company; provided, that the aggregate number of Shares to be issued pursuant to such authority shall not exceed 50% of the post-Invitation issued share capital of the Company and that the aggregate number of Shares and convertible securities to be issued other than on a pro-rata basis to the then existing Shareholders of the Company shall not exceed 20% of the post-Invitation issued share capital of the Company. Unless revoked or varied by the Company in a general meeting, such authority shall continue in full force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting is required by law or by the Articles to be held, whichever is earlier, except that the Directors shall be authorised to allot and issue new Shares pursuant to the convertible securities notwithstanding that such authority has ceased.

For the purposes of the foregoing and pursuant to Rules 806(3) and 806(4) of the Listing Manual, "post-Invitation issued share capital" means the enlarged issued and paid-up share capital of the Company after the Invitation, and where applicable, after adjusting for (i) new Shares arising from the conversion or exercise of convertible securities, (ii) new Shares arising from exercising share options

or vesting of share awards outstanding or subsisting at the time of the passing of this resolution, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual and (iii) any subsequent consolidation or sub-division of shares.

As of the date of this Prospectus, there was one class of shares in the capital of the Company, being the Shares. A summary of selected Articles of the Company relating to, among other things, the voting rights of shareholders is set out in “Appendix A—Summary of Memorandum of Association and Selected Articles of the Company” of this Prospectus. There is no founder, management, deferred or unissued Shares reserved for issuance for any purpose.

Details of the changes in the issued and paid-up capital since its incorporation and the issued and paid-up share capital immediately after the Invitation are as follows:

	Issue Price per Share	Number of Shares	Resultant Issued Share Capital (S\$)
Upon first allotment and issue on 18 October 2006	0.01	1,000,000	10,000
Issue of shares pursuant to the Restructuring Exercise	0.01	669,000,000	6,700,000
Crediting as fully paid the 1,000,000 Shares (which were issued nil paid on 18 October 2006) pursuant to the Restructuring Exercise	0.01	1,000,000	6,700,000
Pre-Invitation share capital	0.01	670,000,000	6,700,000
New Shares to be issued pursuant to the Invitation	0.85	125,000,000	112,950,000
Issued and paid-up share capital after Invitation		795,000,000	112,950,000

The authorised share capital and shareholders’ equity (excluding reserves) of the Company as of the date of this Prospectus before and after adjustments to reflect the Invitation are set out below.

	As of the date of this Prospectus	After the Invitation
Authorised Share Capital		
Ordinary shares of S\$0.01 each	S\$30,000,000	S\$30,000,000
Shareholders’ Equity (excluding reserves)		
Issued and paid-up share capital	S\$6,700,000	S\$112,950,000

SHAREHOLDERS

OWNERSHIP STRUCTURE

The Directors and Substantial Shareholders of the Company and their respective shareholdings immediately before the Invitation (as of the date of this Prospectus) and immediately after the Invitation are set out below:

	Before the Invitation				After the Invitation			
	Direct Interest		Deemed Interest		Direct Interest		Deemed Interest	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Directors								
徐乘 (Hsu, Chen) ⁽¹⁾⁽²⁾	134,000,000	20.0	—	—	134,000,000	16.9*	—	—
胡嘉遜 (Hu, Chia-Hsun) ⁽²⁾	7,035,000	1.0*	—	—	7,035,000	0.8*	—	—
徐沆 (Hsu, Hang) ⁽¹⁾⁽³⁾	—	—	107,200,000	16.0	—	—	107,200,000	13.5*
徐梗 (Hsu, Keng) ⁽¹⁾⁽⁴⁾	—	—	120,600,000	18.0	—	—	120,600,000	15.2*
Other Shareholders								
徐鐸 (Hsu, Pu) ⁽¹⁾	107,200,000	16.0	—	—	107,200,000	13.5*	—	—
Ophira Finance Ltd. ⁽¹⁾⁽³⁾	107,200,000	16.0	—	—	107,200,000	13.5*	—	—
Suncove Investments Ltd. ⁽¹⁾⁽⁴⁾	120,600,000	18.0	—	—	120,600,000	15.2*	—	—
Mellberg ⁽⁵⁾	120,122,475	17.9*	—	—	120,122,475	15.1*	—	—
Great Horizon ⁽⁵⁾	47,377,525	7.1*	—	—	47,377,525	6.0*	—	—
俞鴻新 (Yu, Hung-Hsin) ⁽²⁾⁽⁶⁾	7,035,000	1.0*	—	—	7,035,000	0.8*	—	—
詹武揚 (Chan, Wu-Yang) ⁽⁷⁾	17,085,000	2.6*	—	—	17,085,000	2.2*	—	—
張秀澄 (Chang, Hsiu-Cheng) ⁽²⁾	2,345,000	0.4*	—	—	2,345,000	0.3*	—	—
Public	—	—	—	—	125,000,000	15.7*	—	—
Total	670,000,000	100.0	—	—	795,000,000	100.0	—	—

Notes:

- Mr. Hsu, Chen, Mr. Hsu, Hang, Mr. Hsu, Keng and Mr. Hsu, Pu are brothers. Ms. Hsu, Tien is the daughter of Mr. Hsu, Pu and accordingly, the niece of Mr. Hsu, Chen, Mr. Hsu, Hang and Mr. Hsu, Keng. Save as disclosed, there is no other family relationships among the current Shareholders.
- Mr. Hsu, Chen, Mr. Hu, Chia-Hsun, Mr. Yu, Hung-Hsin and Mr. Chang, Hsiu-Cheng are co-investors in other businesses but they are not acting in concert with each other to control the Company.
- Mr. Hsu, Hang is deemed to be interested in the Shares held by Ophira Finance Ltd. because he owns all the shares in that entity.
- Mr. Hsu, Keng is deemed to be interested in the Shares held by Suncove Investments Ltd. because he owns all the shares in that entity.
- Transpac Nominees is a wholly-owned subsidiary of Transpac Capital. Transpac Nominees acts as a nominee to hold investments owned by funds under the management of Transpac Capital. All the shares in Mellberg are held by Transpac Nominees on behalf of Transpac Managers III Ltd, Transpac Capital 1996 Investment Trust and Transpac Industrial, as their nominee. Transpac Capital 1996 Investment Trust is deemed to be interested in all the shares of Mellberg owned by Transpac Nominees because it owns beneficially more than 90% of the shares in Mellberg. Transpac Nominees has no authority to dispose of, or to exercise control over the disposal of, its shares in Mellberg. Transpac Managers III Ltd, Transpac Capital 1996 Investment Trust and Transpac Industrial have no authority to dispose of, or to exercise control over the disposal of, their interests in Mellberg.

Transpac Industrial is deemed to be interested in all Shares owned by Great Horizon because it owns all of the issued shares in Great Horizon. ASM Ventures Limited, Argyle Street Management Limited, ASM Asia Recovery (Master) Fund, ASM Hudson River Fund, Orchard Partners Limited, Riverview Management Limited, Mr. Kin Chan, Mr. V-Nee Yeh and Ms. Li Yick Yee Angie are deemed to be interested in all Shares over which Transpac Industrial has a deemed interest because they are interested or deemed to be interested in 20% or more of the issued share capital in Transpac Industrial, as notified by them to Transpac Industrial, pursuant to Section 82 and Section 83 of the Singapore Companies Act. Argyle Street Management Limited is the investment manager of the ASM Asia Recovery (Master) Fund, ASM Hudson River Fund, Orchard Partners Limited and Riverview Management Limited. Messrs Kin Chan, V-Nee Yeh and Li Yick Yee Angie have deemed interest in shares in Transpac Industrial through bodies corporate in which they have controlling interests. In addition, they are directors of Argyle Street Management Limited. Transpac Industrial has no authority to dispose of, or to exercise control over the disposal of, its shares in Great Horizon. The shares in Transpac Industrial are listed on the SGX-ST.

Transpac Capital is deemed to be interested in all Shares owned by Mellberg and Great Horizon because these Shares are managed by it. Transpac Capital is a direct investment management company owned by two shareholders, namely Techno-Ventures Hong Kong Limited and Bastion Associates Ltd and accordingly, they are deemed to be interested in all Shares over which Transpac Capital has a deemed interest. In addition, Leong Ka Cheong Christopher (through his shareholdings in these two companies) is deemed to be interested in all Shares over which Transpac Capital has a deemed interest.

- Mr. Yu, Hung-Hsin is a director of Hsu Fu Chi Holdings and Hsu Fu Chi Foods.
- Mr. Chan, Wu-Yang is a director of Hsu Fu Chi Holdings and Top Ocean.
- The numbers marked with * have been rounded to one decimal place.

The Controlling Shareholders of the Company are Mr. Hsu, Chen, Mr. Hsu, Keng, Suncove Investments Ltd. (which is wholly-owned by Mr. Hsu, Keng), Mr. Hsu, Hang, Ophira Finance Ltd. (which is wholly-owned

by Mr. Hsu, Hang) and Mr. Hsu, Pu, who are acting in concert to control the Company. Notwithstanding the size of their Shareholdings, Transpac Capital, Mellberg and Great Horizon, as well as the Substantial Shareholders who are deemed to have interest in Shares through them, do not regard themselves as Controlling Shareholders because the majority shareholding in the Company is held by the Controlling Shareholders of the Company and only one of the Directors is representing Transpac Capital, and hence they do not have the capacity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of the Company.

Save as disclosed in this Prospectus, to the best of the knowledge of the Directors, the Company is not directly or indirectly owned or controlled whether severally or jointly, by any other person or government.

The Shares held by the Directors and the Substantial Shareholders do not carry different voting rights from the Invitation Shares.

As of the date of this Prospectus, the Company is not aware of any arrangement the operation of which may, at a subsequent date, result in a change in control of the Company.

Save as disclosed in the section “Restructuring Exercise” of this Prospectus, there were no significant changes in the percentages of ownership of the Directors and Substantial Shareholders in the Company in the 3 years preceding the Latest Practicable Date.

SHAREHOLDERS’ AGREEMENT

Transpac Capital, Mr. Hsu, Chen, Mr. Hsu, Pu, Mr. Hsu, Hang and Mr. Hsu, Keng entered into a shareholders’ agreement on 26 September 1997, in respect of their shareholdings in Hsu Fu Chi Holdings. This shareholders’ agreement will be terminated with effect from the Listing Date.

MORATORIUM

To demonstrate their commitment to the Group, the Company’s Substantial Shareholders (with the exception of Mellberg and Great Horizon) and Executive Directors, namely Mr. Hsu, Chen, Mr. Hu, Chia-Hsun, Mr. Hsu, Hang, Ophira Finance Ltd. (which is wholly-owned by Mr. Hsu, Hang), Mr. Hsu, Keng, Suncove Investments Ltd. (which is wholly-owned by Mr. Hsu, Keng), and Mr. Hsu, Pu, have agreed with Cazenove, subject to certain exceptions, not to sell, pledge, charge, allot, transfer or dispose of any Shares owned as at the date of the lock-up agreement and any Shares acquired after the date of the lock-up agreement for a period of 12 months from the Listing Date. Any disposal of or transfer of any interests (direct or deemed) in Shares by these Substantial Shareholders (with the exception of Mellberg and Great Horizon) and Executive Directors before the expiry of the above 12 months moratorium, but after six months from the Listing Date, is subject to the prior written consent of Cazenove, such consent not to be unreasonably withheld or delayed.

Mellberg and Great Horizon have agreed with Cazenove, subject to certain exceptions, not to sell, pledge, charge, allot, transfer or dispose of any interests (direct or deemed) in Shares owned as at the date of the lock-up agreement and any Shares acquired after the date of the lock-up agreement for a period of six months from the Listing Date. Transpac Capital is deemed to be interested in all Shares owned by Mellberg and Great Horizon because these Shares are managed by it. Transpac Nominees, Transpac Managers III Ltd and Transpac Capital 1996 Investment Trust have no authority to dispose of, or to exercise control over the disposal of, their interests in Mellberg, and Transpac Industrial has no authority to dispose of, or to exercise control over the disposal of, its interest in Mellberg and Great Horizon. Transpac Capital, Transpac Industrial and Transpac Nominees have agreed with Cazenove, subject to certain exceptions, not to sell, pledge, charge, allot, transfer or dispose of any interests (direct or deemed) in Shares owned as at the date of the lock-up agreement and any Shares acquired after the date of the lock-up agreement for a period of six months from the Listing Date.

Each of Mr. Yu, Hung-Hsin, Mr. Chan, Wu-Yang and Mr. Chang, Hsiu-Cheng, have agreed with Cazenove, subject to certain exceptions, not to sell, pledge, charge, allot, transfer or dispose of any interest (direct or deemed) in Shares owned as at the date of the lock-up agreement and any Shares acquired after the date of the lock-up agreement for a period of six months from the Listing Date.

In addition, (1) Mr. Hsu, Hang and (2) Mr. Hsu, Keng have undertaken, subject to certain exceptions, not to sell, pledge, charge, allot, transfer or dispose of their respective shares owned as at the date of the lock-up agreement and any shares acquired after the date of the lock-up agreement in Ophira Finance Ltd. and Suncove Investments Ltd., respectively, for a period of 12 months from the Listing Date. Any disposal or transfer of any interests (direct or deemed) in shares in Ophira Finance Ltd. and Suncove Investments Ltd. by Mr. Hsu, Hang and Mr. Hsu, Keng respectively before the expiry of the above 12 months moratorium, but after six months from the Listing Date, is subject to the prior written consent of Cazenove, such consent not to be unreasonably withheld or delayed.

Specifically, the Company's Substantial Shareholders, Executive Directors, Mr. Yu, Hung-Hsin, Mr. Chan, Wu-Yang and Mr. Chang, Hsiu-Cheng have agreed not to directly or indirectly:

- offer, pledge, sell or contract to sell any Shares;
- sell any option or contract to purchase any Shares;
- purchase any option or contract to sell any Shares;
- grant any option, right or warrant for the sale of any Shares;
- lend or otherwise dispose of or transfer any Shares;
- enter into any transaction (including a derivative transaction) that has the effect of, is designed to or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) of any Shares;
- deposit any Shares in any depository receipt facility; or
- publicly announce any intention to do any of the above.

The Company has agreed with Cazenove that for a period of six months from the Listing Date, the Company will not:

- issue, offer, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any Shares (or any securities convertible into or exercisable or exchangeable for or that represent the right to receive, subscribe for or purchase Shares);
- enter into any transaction (including a derivative transaction) having an economic effect similar to that of a sale of Shares;
- publicly announce any intention to issue, offer, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any Shares (or any securities convertible into or exercisable or exchangeable for or that represent the right to receive, subscribe for or purchase Shares); or
- deposit any Shares (or any securities convertible into or exercisable or exchangeable for, or which carry rights to subscribe for or purchase Shares) in any depository receipt facility.

CAPITALISATION AND INDEBTEDNESS

The following table shows the Company's cash and cash equivalents, short term debt, long-term debt and capitalisation:-

- (i) on an actual basis as of 30 September 2006, which is within 60 days from the date of lodgement of this Prospectus with the MAS;
- (ii) as adjusted to give effect to the issue of 125,000,000 New Shares pursuant to the Invitation and the application of the net proceeds from the Invitation as described in "Use of Proceeds" of the Prospectus.

You should read this table in conjunction with the "Audited Combined Financial Statements of Hsu Fu Chi International Limited for years ended 30 June 2004, 2005 and 2006" and the related notes together with the "Report from the auditors in relation to the audited combined financial statements of Hsu Fu Chi International Limited for years ended 30 June 2004, 2005 and 2006" set out in the "Audited Combined Financial Statements of Hsu Fu Chi International Limited for years ended 30 June 2004, 2005 and 2006" of this Prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" of this Prospectus.

(RMB'000)	As of 30 September 2006 (unaudited)	As adjusted for the net proceeds from the issue of the New Shares
Cash and bank balances ⁽¹⁾	144,605	638,639
Current debt		
<i>Secured</i>		
Bills payable ⁽²⁾	86,730	86,730
Short term loans ⁽³⁾	125,000	125,000
<i>Unsecured</i>		
Bills payable	40,417	40,417
Short term loans	110,000	110,000
Term loans	20,000	20,000
Non-current debt		
Term loan, secured ⁽⁴⁾	30,000	30,000
Total indebtedness	412,147	412,147
Total shareholders' equity	1,169,417	1,663,451
Total capitalisation and indebtedness . . .	1,581,564	2,075,598

Notes:

- (1) Cash and bank balances as at 30 September 2006 include bank deposits subject to restricted application amounting to RMB78,022.
- (2) Bills payable amounting to RMB70,842,000 and RMB15,888,000 are secured by corporate guarantees from Dongguan Hsu Fu Chi and Hsu Fu Chi Holdings respectively.
- (3) Short term bank loans amounting to RMB50,000,000 and RMB75,000,000 are secured by corporate guarantees from Dongguan Hsu Fu Chi and Hsu Fu Chi Holdings respectively.
- (4) This term loan is secured by a corporate guarantee from Dongguan Hsu Fu Chi and bears interest at 5.184% per annum. It is repayable in full in December 2007.

Save as disclosed above and in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" of this Prospectus, since 30 September 2006 to the Latest Practicable Date, there were no material changes in the Company's total capitalisation and indebtedness.

DILUTION

Dilution is the amount by which the Final Price (being the Maximum Offering Price of S\$0.85) paid by the subscribers of the Shares in this Invitation exceeds the NTA per Share after the Invitation. The Company's NTA per Share as of 30 June 2006 before adjusting for the net proceeds from the Invitation and based on the pre-Invitation issued and paid up share capital of 670,000,000 Shares, was S\$0.29 per Share.

Pursuant to the Invitation in respect of 125,000,000 New Shares at the Maximum Offering Price of S\$0.85 for each Invitation Share, the Company's NTA per Share after adjusting for the estimated net proceeds from the Invitation and based on the post-Invitation issued and paid-up share capital of 795,000,000 Shares would have been S\$0.37 cents.⁽¹⁾ This represents an immediate increase in NTA per Share of S\$0.08 to the existing Shareholders and an immediate dilution in NTA per Share of S\$0.48 or approximately 56.5 per cent. to the new investors.

The following table illustrates the dilution per Share (assuming that the Final Price is the Maximum Offering Price):-

	S\$
Final Price per Share	0.85
NTA per Share as of 30 June 2006 based on the pre-Invitation share capital of 670,000,000 Shares	0.29
Increase in NTA per Share attributable to existing Shareholders ⁽¹⁾	0.08
NTA per Share after the Invitation ⁽¹⁾	0.37
Dilution in NTA per Share to new public investors ⁽¹⁾	0.48

The following table sets forth as of the date of this Prospectus the Substantial Shareholders and the Directors and their Associates, the number of Shares acquired by them during the period of three years prior to the date of lodgment of this Prospectus with the MAS, the total consideration and the average price (effective cash cost) per Share:

	Number of Shares acquired	Total consideration ⁽¹⁾ (S\$'000)	Average price (effective cash cost) per Share ⁽¹⁾ (S\$)
Substantial Shareholders and their Associates (excluding the Directors who are Substantial Shareholders and listed below):			
Mr. Hsu, Pu ⁽²⁾	107,200,000	31,302	0.29
Mellberg ⁽²⁾	120,122,475	35,075	0.29
Great Horizon ⁽²⁾	47,377,525	13,834	0.29
Directors and their Associates:			
Mr. Hsu, Chen ⁽²⁾	146,730,000	39,127	0.29
Mr. Hu, Chia-Hsun ⁽²⁾	7,035,000	2,054	0.29
Mr. Hsu, Hang ⁽²⁾	107,200,000	31,302	0.29
Mr. Hsu, Keng ⁽²⁾	120,600,000	35,215	0.29
Subscribers of Invitation Shares . . .	125,000,000	106,250	0.85

Notes:

- (1) The translation was based on the mid-closing exchange rate of RMB5.017:S\$1.00 as at the Latest Practicable Date. No representation is made that the RMB amount stated can be converted at that rate or any other rate.
- (2) See "Shareholders—Ownership Structure" of this Prospectus regarding details of deemed interest and "Restructuring Exercise" of this Prospectus regarding details of acquisition.

RESTRUCTURING EXERCISE

On 30 October 2006, the Group undertook the Restructuring Exercise in preparation for the listing of the Company. Prior to the Restructuring Exercise, Mr. Hsu, Chen was the sole shareholder of the Company, holding 1,000,000 nil paid shares of S\$0.01 in the capital of the Company. The Restructuring Exercise involved the acquisition by the Company of all issued shares in Hsu Fu Chi Holdings (the “HFCH Shares”) at a consideration of RMB981.5 million (the “Purchase Consideration”), which is based on the net asset value of Hsu Fu Chi Holdings and its subsidiaries of RMB981.5 million as of 30 June 2006, after taking into account the dividend payments of HK\$40,000,000 in FY2004 and HK\$50,116,000 in FY2006 described in the section “Dividend Policy” of this Prospectus. The Restructuring Exercise was completed when the Company acquired all HFCH Shares from the shareholders of Hsu Fu Chi Holdings (the “Transferors”), namely, Mr. Hsu, Chen, Mr. Hu, Chia-Hsun, Mr. Hsu, Hang, Mr. Hsu, Keng, Mr. Hsu, Pu, Transpac Nominees (who was holding shares in Hsu Fu Chi Holdings as a nominee of the beneficial owners of such shares (the “Beneficial Owners”)), Transpac Industrial, Mr. Chang, Hsiu-Cheng, Mr. Chan, Wu-Yang and Mr. Yu, Hung-Hsin.

The Purchase Consideration was satisfied by the Company crediting as fully paid the 1,000,000 existing nil paid Shares that were held by Mr. Hsu, Chen, and the allotment and issue of 669,000,000 new Shares in the capital of the Company, credited as fully paid, to the Transferors (except for the allotment and issue of Shares (a) to Mellberg (which is held by Transpac Nominees) instead of Transpac Nominees (at the direction of Transpac Nominees), (b) to Great Horizon (which is held by Transpac Industrial) instead of Transpac Industrial (at the direction of Transpac Industrial), (c) to Ophira Finance Ltd. (which is wholly-owned by Mr. Hsu, Hang) instead of Mr. Hsu, Hang (at the direction of Mr. Hsu, Hang) and (d) to Suncove Investments Ltd. (which is wholly-owned by Mr. Hsu, Keng) instead of Mr. Hsu, Keng (at the direction of Mr. Hsu, Keng)) as follows:

<u>Name of allottee</u>	<u>Number of Shares allotted and issued</u>
Mr. Hsu, Chen	133,000,000
Mr. Hu, Chia-Hsun	7,035,000
Ophira Finance Ltd.	107,200,000
Suncove Investments Ltd.	120,600,000
Mr. Hsu, Pu	107,200,000
Mellberg	120,122,475
Great Horizon	47,377,525
Mr. Yu, Hung-Hsin	7,035,000
Mr. Chan, Wu-Yang ⁽¹⁾	17,085,000
Mr. Chang, Hsiu-Cheng	2,345,000
Total	669,000,000

Notes:

- (1) Mr. Hsu, Chen’s wife, Ms. Hsu Lee Yin-Mei, transferred her HFCH Shares (which is equivalent to approximately 1.9 per cent. of all HFCH Shares) to Mr. Chan, Wu-Yang before the Restructuring Exercise, at the same price per HFCH Share as the price paid by the Company in its acquisition of the HFCH Shares.

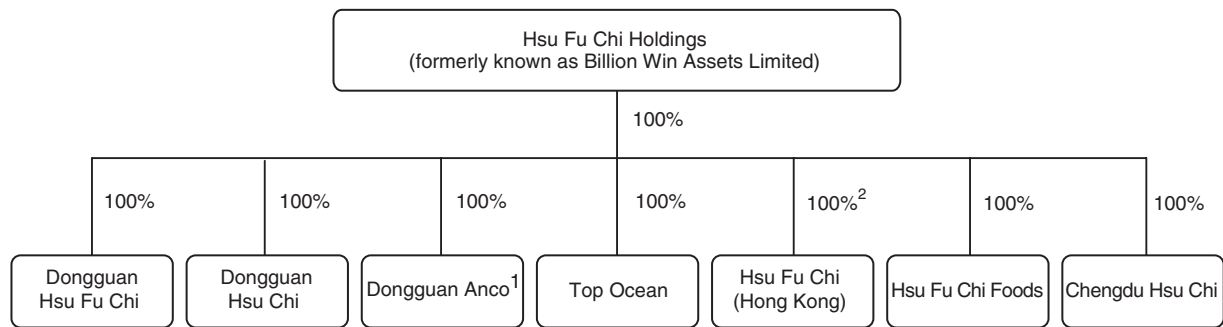
The result of the Restructuring Exercise is that the shareholders of Hsu Fu Chi Holdings before the Restructuring Exercise and the shareholders of the Company after the Restructuring Exercise but before the Invitation are, and the percentage of their shareholdings remain, the same except that:-

- (a) Transpac Nominees owns shares in Mellberg instead of owning the Shares;
- (b) Transpac Industrial owns shares in Great Horizon instead of owning the Shares;
- (c) Mr. Hsu, Hang owns shares in Ophira Finance Ltd. instead of owning the Shares; and
- (d) Mr. Hsu, Keng owns shares in Suncove Investments Ltd. instead of owning the Shares.

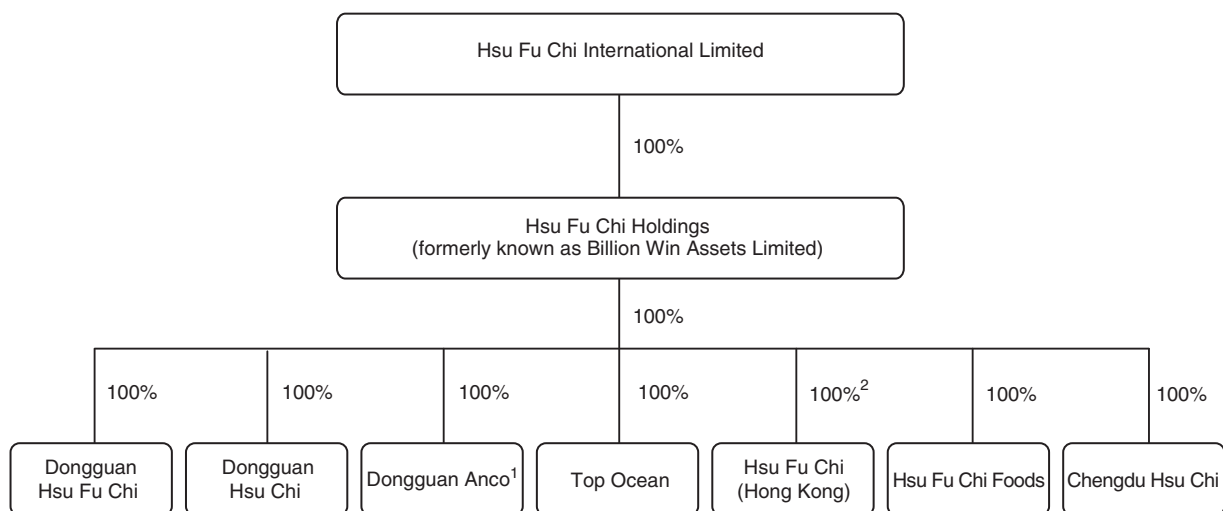
Based on the legal opinion from Jingtian & Gongcheng, the Company’s PRC legal counsel, the Provisions on the Acquisition of Domestic Enterprises by Foreign Investors which was promulgated by the PRC government on 8 August, 2006 does not apply to the Group in relation to the listing of the Shares on the Main Board of the SGX-ST.

GROUP STRUCTURE

The Group structure immediately before completion of the Restructuring Exercise is set out below:



The Group structure after the Restructuring Exercise but before the Invitation is as follows:



As of the date of this Prospectus, Dongguan Andegu and Dongguan Ruihuashi are in the process of being incorporated.

The Company does not have any Associated Companies. Details of the only principal subsidiary of the Company (being Dongguan Hsu Chi) as of the date of this Prospectus are as follows:

<u>Name</u>	<u>Date and country of incorporation or constitution</u>	<u>Principal activities</u>	<u>Principal place of business</u>	<u>Percentage owned</u>
Dongguan Hsu Chi	3 November 1997, PRC	Manufacture of confectionery products and distribution of the Group's confectionery products in the PRC	PRC	100%

Dongguan Hsu Chi established the sales network by setting up registered sales offices in various parts of the PRC. As of the Latest Practicable Date, Dongguan Hsu Chi operated 56 sales offices, each registered as a branch office of Dongguan Hsu Chi under the relevant PRC laws.

Notes:

- As of the date of this Prospectus, Dongguan Anco is a dormant company and the Group intends to wind it up.
- Hsu Fu Chi Holdings is the sole beneficial owner of Hsu Fu Chi (Hong Kong). 99% of the shares of Hsu Fu Chi (Hong Kong) are owned by Hsu Fu Chi Holdings. 1% of the shares of Hsu Fu Chi (Hong Kong) are held by Mr. Hsu, Chen on trust for Hsu Fu Chi Holdings.

The following table sets out the principal activities of those subsidiaries which are not principal subsidiaries of the Company:

<u>Name of Subsidiary</u>	<u>Country of Incorporation</u>	<u>Principal activity</u>
Hsu Fu Chi Holdings	BVI	Investment holding
Hsu Fu Chi (Hong Kong)	Hong Kong	Sale and distribution of the Group's confectionery products in Hong Kong
Top Ocean	Samoa	Sale and distribution of the Group's confectionery products in international markets
Hsu Fu Chi Foods	Singapore	Management service, general wholesale trade (including import and export) and sales and distribution
Dongguan Hsu Fu Chi	PRC	Manufacture of confectionery products for Dongguan Hsu Chi
Dongguan Anco	PRC	Dongguan Anco was in the business of manufacturing preserved fruits and is currently a dormant company. As the Group has decided to phase out the manufacture of preserved fruits, the Group intends to wind-up Dongguan Anco
Chengdu Hsu Chi	PRC	Research and development of agricultural by-products, such as grains and fruits

INDUSTRY

INTRODUCTION

This section discusses the following:

- Sales of confectionery and bakery products in the PRC;
- Macro-economic factors favourable to the development of the PRC confectionery industry, including the economic outlook of the PRC economy, purchasing power and urbanisation in the PRC; and
- Retail distribution in the PRC.

The confectionery industry in the PRC has been growing in recent years and the growth may be attributable to the following:

- population growth in the PRC leading to an increase in sales of confectionery and snacks
- an increase in the purchasing power of the rapidly growing urban population and the per capita consumption of confectionery and snacks
- the growth of retail chain stores which form the main distribution channels for confectionery and snacks

CONFECTIONERY INDUSTRY IN THE PRC

Confectionery plays an important role in the PRC packaged food industry. On formal and festive occasions, sugar confectionery and standard boxed assortments have showed strong growth especially in the cities.¹ Total confectionery sales in the PRC amounted to almost RMB41 billion in 2005, representing growth of over 6% in retail sales value over the previous year.¹ Sugar confectionery is the most fragmented area of the confectionery industry, mainly owing to the fact that the entry barriers are low, therefore allowing a large number of local players to attract consumers with their competitive retail prices.²

Confectionery

Sales of confectionery in the PRC has been growing in recent years. According to Euromonitor International, sugar confectionery is the largest segment of the confectionery market in the PRC, representing approximately 83.7% of the total sales of confectionery in the PRC in 2005 with a CAGR³ of approximately 6.1% for the period from 2000 to 2005. Chocolate confectionery represented approximately 8.9% of the total sales of confectionery in the PRC in 2005 with a CAGR of approximately 10.7% for the period from 2000 to 2005. The chewing gum market represented approximately 7.4% of the total sales of confectionery in the PRC in 2005 with a CAGR of approximately 9.4% for the period from 2000 to 2005. As illustrated in the table below, the retail sales of confectionery as a whole grew from approximately 0.7 million tonnes in 2000 to approximately 1.0 million tonnes in 2005. The following table also illustrates the retail sales of the various types of confectionery in terms of volume for the same period.

Figure 1: Retail Sales of Confectionery by Subsector: Volume 2000-2005

'000 tonnes	2000	2001	2002	2003	2004	2005
Chocolate confectionery	52.7	58.1	64.2	72.2	79.7	87.6
Sugar confectionery	610.6	645.5	689.6	733.4	776.3	820.5
Gum	46.1	51.6	57.6	63.3	68.0	72.2
Confectionery	709.4	755.1	811.4	869.0	924.0	980.3

Source: Euromonitor International. Please see the section "General and Statutory Information—Consents; —Sources" of this Prospectus for information regarding use of this source.

As illustrated in the table below, retail sales of confectionery as a whole grew from approximately RMB28.4 billion in 2000 to approximately RMB41.0 billion in 2005. The following table also illustrates the retail sales of the various types of confectionery in terms of value for the same period.

Figure 2: Retail Sales of Confectionery by Subsector: Value 2000-2005

RMB million	2000	2001	2002	2003	2004	2005
Chocolate confectionery	3,129.0	3,435.8	3,805.7	4,426.5	4,841.7	5,277.4
Sugar confectionery	21,948.2	23,511.8	25,356.6	27,115.9	28,700.1	30,337.0
Gum	3,316.3	3,774.1	4,243.6	4,676.9	5,054.3	5,372.0
Confectionery	28,393.5	30,721.6	33,405.9	36,219.2	38,596.1	40,986.4

Source: Euromonitor International. Please see the section “General and Statutory Information—Consents; —Sources” of this Prospectus for information regarding use of this source

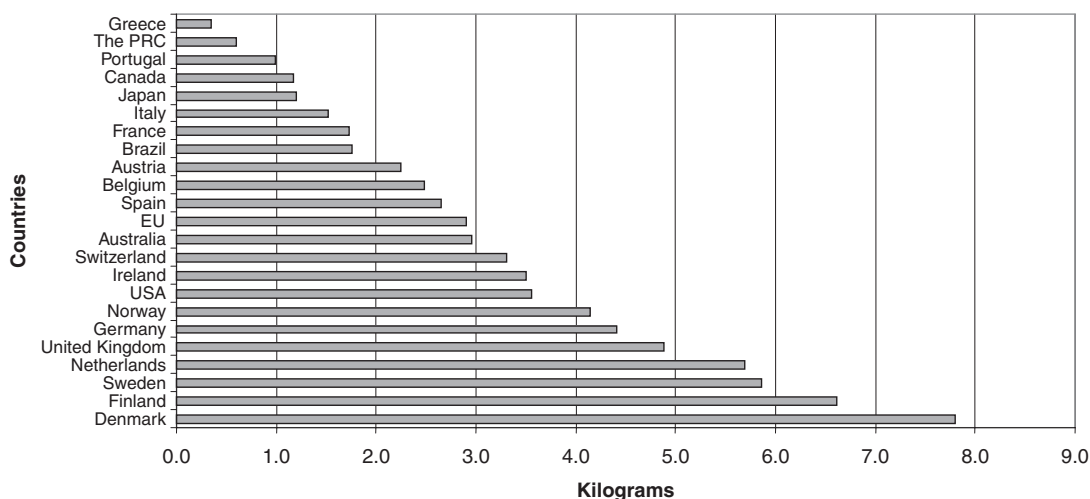
According to Euromonitor, total confectionery sales are expected to reach over RMB52.4 billion in retail sales value and over 1.2 million tonnes in sales volume by the end of 2010.⁴ Dongguan Hsu Fu Chi was ranked fourth by Euromonitor in terms of market share in the PRC in 2004. The market share in terms of sales value of Dongguan Hsu Fu Chi increased from 2.5% in 2001 to 3.1% in 2004.⁵

Sugar confectionery

Sugar confectionery (which includes boiled sweets, pastilles, gums, jellies and toffees) has volume and retail sales value growth, each amounting to almost 6% in 2005,⁶ and sales amounting to approximately RMB30.3 billion in 2005.⁷ Toffees, caramels and nougat have the second largest volume sales of all sugar confectionery in 2005 and the highest value sales.⁶ Retail volume growth reached almost 7% in 2005, with volume sales at 300,000 tonnes.⁶ Total retail sales of mints and medicated confectionery experienced double digit volume and retail sales value growth in 2005 - the most vigorous growth rates in sugar confectionery.⁸ The retail sales by volume of sugar confectionery as a whole grew from 610,600 tonnes in 2000 to 820,500 tonnes in 2005.⁹ The retail sales by value of sugar confectionery as a whole grew from approximately RMB21.9 billion in 2000 to approximately RMB30.3 billion in 2005.¹⁰

The PRC had a per capita consumption of sugar confectionery of 0.6 kg in 2004. The chart below illustrates the per capita consumption of sugar confectionery of various countries:

Figure 3: Per Capita Consumption of Sugar Confectionery in 2004



Source: Euromonitor International. Please see the section “General and Statutory Information—Consents; —Sources” of this prospectus for information regarding use of this source.

According to Euromonitor International, sales of sugar confectionery are expected to reach approximately RMB38.4 billion in value sales and approximately one million tonnes in volume sales in 2010.¹¹

Dongguan Hsu Fu Chi was ranked first by Euromonitor International in terms of market share in the PRC from 2001 to 2005. The market share in terms of sales value of Dongguan Hsu Fu Chi increased from 3.3% in 2001 to 4.1% in 2005.¹²

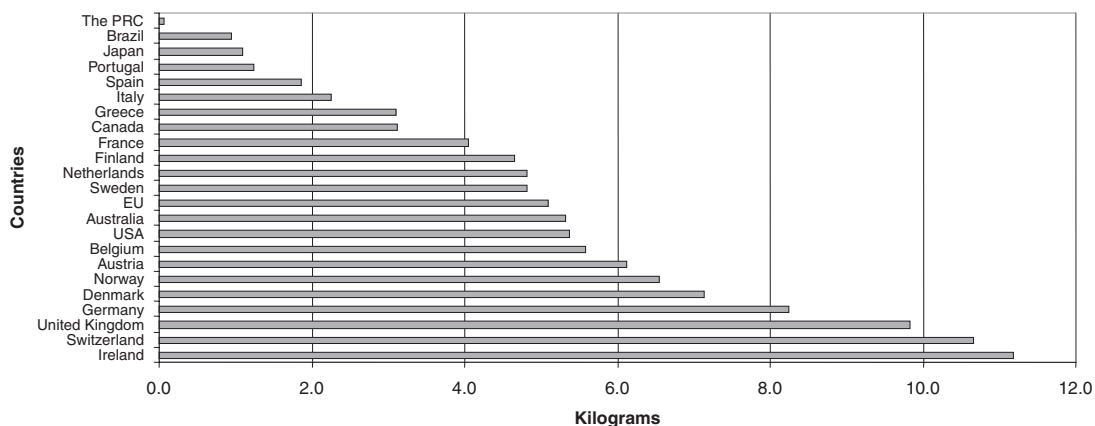
Chocolate confectionery

According to Euromonitor International, increasing demand for chocolate confectionery has led to a robust performance of the industry in the PRC, with volume growth at 10% in 2005. Total sales volume and retail sales value amounted to 88,000 tonnes and over RMB5 billion in 2005. Tablets are the traditional and the most popular chocolate confectionery, with the largest consumer base. Total retail volume sales of tablets amounted to over 39,000 tonnes in 2005, accounting for about 45% of the total retail volume sales of chocolate confectionery. The stable demand for this traditional chocolate confectionery was still strong in 2005, with sales growing by approximately 10% in volume terms.¹³

With growing disposable income levels, consumers are trending toward more premium products.¹⁴ Product quality and brand image are important considerations when consumers are buying chocolates as gifts. On such festive and special occasions as Chinese New Year and St. Valentine's Day in big cities, boxed assortments are generally considered the preferred gifts.¹⁴ The retail sales by volume of chocolate confectionery in the PRC as a whole grew from 52,700 tonnes in 2000 to 87,600 tonnes in 2005.¹⁵ The retail sales by value of chocolate confectionery as a whole grew from approximately RMB3.1 billion in 2000 to approximately RMB5.3 billion in 2005.¹⁶

The PRC had a per capita consumption of chocolate confectionery of 0.1 kg in 2004. The chart below illustrates the per capita consumption of chocolate confectionery of various countries:

Figure 4: Per Capita Consumption of Chocolate Confectionery in 2004



Source: Euromonitor International. Please see the section “General and Statutory Information—Consents; —Sources” of this prospectus for information regarding use of this source.

According to Euromonitor International, chocolate confectionery sales are forecasted to reach approximately RMB7.3 billion in value sales and 129,700 tonnes in volume sales in 2010.¹⁷

Bakery Products

Bakery products consist mainly of baked goods (predominantly cakes and pastries) and biscuits. In the PRC, bakery products have witnessed growth in recent years, with total value sales exceeding RMB74 billion in 2005, representing retail sales value growth of 7% over the previous year.¹⁸ Baked goods and biscuits dominate bakery products, together representing over 99% of total value sales in 2005.¹⁸ The convenience offered by bakery products as staple food, as snacks between meals or as breakfast, is an appealing feature of bakery products to consumers with an increasingly hectic pace of life, particularly in urban areas.¹⁸ Retail sales of bakery products in the PRC as a whole grew from approximately 3.9 million tonnes in 2000 to approximately 6.0 million tonnes in 2005.¹⁹ The chart below illustrates the retail sales of the various types of bakery products in terms of volume for the same period:

Figure 5: Retail Sales of Bakery Products in the PRC by Subsector: Volume 2000-2005

'000 tonnes	2000	2001	2002	2003	2004	2005
Baked goods	2,906.3	3,198.6	3,516.4	3,854.5	4,188.4	4,546.1
Biscuits	956.5	1,039.9	1,130.5	1,224.9	1,313.2	1,398.6
Breakfast cereals	4.0	5.2	6.6	8.0	12.6	14.8
Bakery products	3,866.7	4,243.8	4,653.5	5,087.5	5,514.1	5,959.4

Source: Euromonitor International. Please see the section "General and Statutory Information—Consents; —Sources" of this Prospectus for information regarding use of this source.

Retail sales of bakery products as a whole grew from approximately RMB49.1 billion in 2000 to approximately RMB74.1 billion in 2005.²⁰ The following chart illustrates the retail sales of the various types of bakery products in terms of value for the same period.

Figure 6: Retail Sales of Bakery Products in the PRC by Subsector: Value 2000-2005

RMB million	2000	2001	2002	2003	2004	2005
Baked goods	36,897.9	40,463.9	44,438.0	48,281.4	52,562.6	56,368.9
Biscuits	12,097.1	13,168.1	14,236.5	15,263.6	16,321.4	17,294.8
Breakfast cereals	61.9	81.7	101.8	122.8	332.8	395.1
Bakery products	49,057.0	53,713.7	58,776.2	63,667.7	69,216.8	74,058.8

Source: Euromonitor International. Please see the section "General and Statutory Information—Consents; —Sources" of this Prospectus for information regarding use of this source.

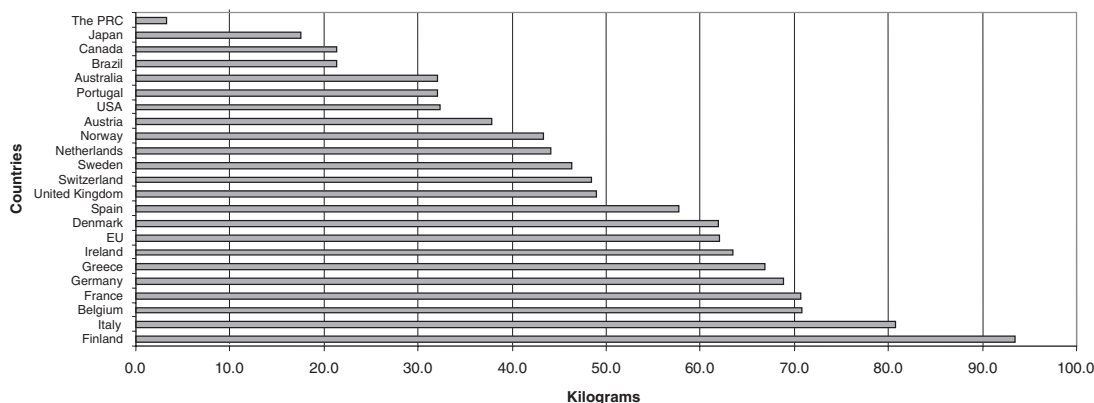
With economic development and accelerating urbanisation in the PRC, bakery products are expected to post stable growth over the forecast period from 2005 to 2010, with a projected volume CAGR of 6% and value CAGR (after discounting for price increases resulting from inflation) of 5%.²¹ Total bakery product sales are thus expected to reach over RMB93 billion in value sales²¹ and approximately 8.0 million tonnes in volume sales in 2010.²²

Baked goods

According to Euromonitor, baked goods is the largest category within the bakery product industry, accounting for almost 76.1% of the bakery products sales in 2005, with a CAGR of approximately 8.8% from 2000 to 2005.²³ The total sales of baked goods reached more than RMB56 billion in 2005, following retail sales value growth at 7% over the previous year. As manufacturers are wooing consumers with competitive prices, total volume growth was higher than retail sales value growth, at around 9% in the same year.²⁴ Baked goods consist mainly of pastries and cakes, which collectively amounted to approximately RMB46.9 billion in 2005 in terms of sales.²⁵ The retail sales value of cakes amounted to approximately RMB24.8 billion in 2005.²⁶ The retail sales by volume of baked goods grew from approximately 2.9 million tonnes in 2000 to approximately 4.5 million tonnes in 2005.²⁷ The retail sales by value of baked goods as a whole grew from approximately RMB36.9 billion in 2000 to approximately RMB56.4 billion in 2005.²⁸

The PRC had a per capita consumption of baked goods of 3.2 kg in 2004. The chart below illustrates the per capita consumption of baked goods of various countries:

Figure 7: per Capita Consumption of Baked Goods in 2004



Source: Euromonitor International. Please see the section “General and Statutory Information—Consents; —Sources” of this prospectus for information regarding use of this source.

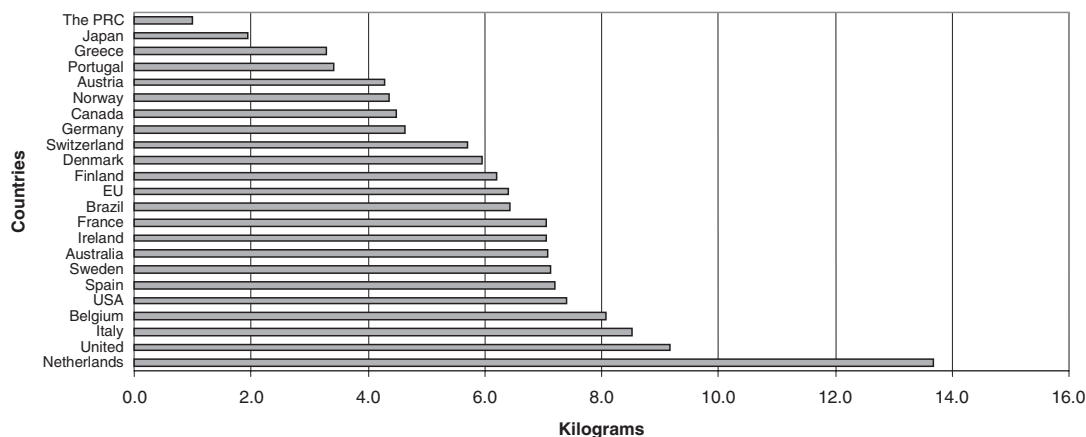
According to Euromonitor, sales of baked goods are expected to increase from approximately RMB56.4 billion in 2005 to approximately RMB70.9 billion in value sales in 2010, and from approximately 4.5 million tonnes in 2005 to approximately 6.2 million tonnes in volume sales in 2010.²⁹

Biscuits

Biscuits come in a variety of flavours and textures catering to the needs of different types of consumers. Biscuits maintained stable growth in 2005 of 7% in volume terms and 6% in retail sales value term³⁰. The many functions of biscuits may explain its stable demand – biscuits are eaten as snacks in between meals and as breakfast, and are often given as gifts on festive occasions. The availability of smaller packaging greatly enhances on-the-go consumption while family packaging is more economical hence more suitable for weekly shopping in hypermarkets.³⁰ The retail sales by volume of biscuits grew from approximately 1.0 million tonnes in 2000 to approximately 1.4 million tonnes in 2005.³¹ The retail sales by value of biscuits as a whole grew from approximately RMB12.1 billion in 2000 to approximately RMB17.3 billion in 2005.³²

The PRC had a per capita consumption of biscuits of 1.0 kg in 2004. The chart below illustrates the per capita consumption of biscuits of various countries:

Figure 8: Per Capita Consumption of Biscuits in 2004



Source: Euromonitor International. Please see the section “General and Statutory Information—Consents; —Sources” of this prospectus for information regarding use of this source.

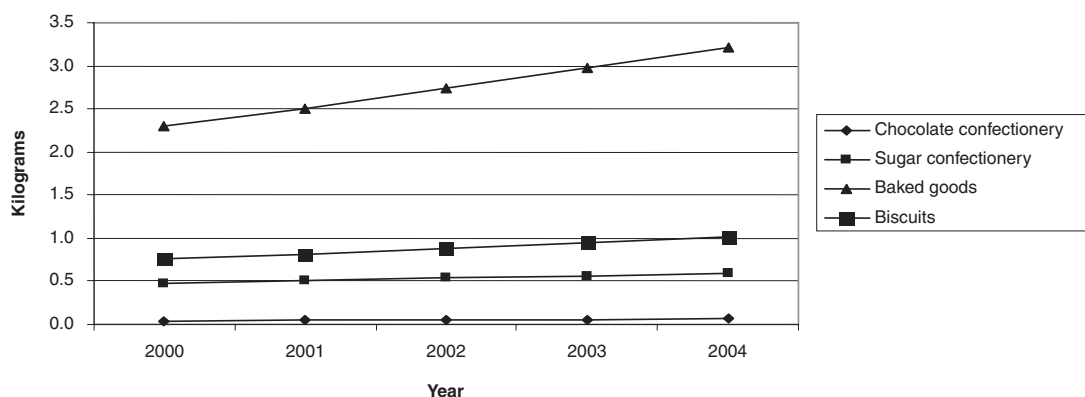
According to Euromonitor, sales of biscuits are expected to increase from approximately 1.4 million tonnes in 2005 to approximately 1.8 million tonnes in sales volume in 2010 and from RMB17.3 billion in 2005 to approximately RMB21.4 billion in sales value in 2010.³³

Consumers of confectionery in the PRC

As the population grows in the PRC, there is also an overall increase in the demand for confectionery and snacks. In addition, there has also been an increase in the purchasing power of the rapidly growing urban population and the per capita consumption of confectionery and snacks.

The PRC has experienced growth in its per capita consumption of chocolate and sugar confectionery, baked goods and biscuits from 2000 to 2004, in particular in the baked goods sector. The chart below illustrates the growth in the per capita consumption of chocolate and sugar confectionery, baked goods and biscuits in the PRC from 2000 to 2004:

Figure 9: Growth in Per Capita Consumption of Chocolate and Sugar Confectionery, Baked Goods and Biscuits in the PRC



Source: Euromonitor International. Please see the section “General and Statutory Information—Consents; —Sources” of this prospectus for information regarding use of this source.

The demand for candies in the PRC generally increases significantly during the Chinese New Year. In general, candies purchased during this period are not only for consumers’ own consumption but also for use as auspicious gifts. The development, marketing and sales of these candies are based on the customs of Chinese people, who consume candies and exchange gifts of candies among friends and relatives during the Chinese New Year.

Consumers of different age groups and socio-economic backgrounds have different tastes and product preferences. Within the same consumer segment, the consumers’ taste buds may also differ due to differences in locations and climates in the PRC. In addition, consumer preferences may change in response to the changing seasons. Packaging is generally considered an important factor affecting consumer preference as attractive packaging in bright colours and professional designs are more likely to attract consumers.

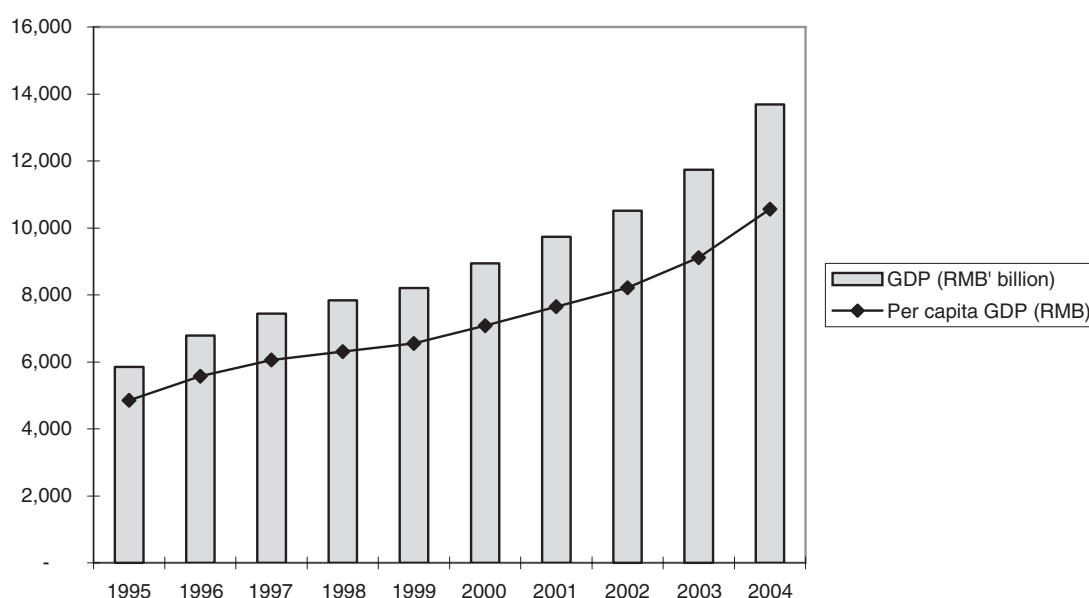
MACRO-ECONOMIC FACTORS FAVOURABLE TO THE DEVELOPMENT OF THE PRC CONFECTIONERY INDUSTRY

The economic outlook of the PRC economy

The PRC has been one of the world's fastest growing economies and is currently one of the largest economies in the world in terms of GDP. As illustrated in the table below, the GDP of the PRC grew from approximately RMB5,847 billion in 1995 to approximately RMB13,687 billion in 2004, representing a CAGR of approximately 8.9%. In terms of GDP per capita, the PRC recorded a growth from RMB4,854 in 1995 to RMB10,561 billion in 2004, representing a CAGR of approximately 8.1%. The chart below illustrates the growth of the PRC's GDP from 1995 to 2004:

Figure 10: GDP in the PRC from 1995 to 2004

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	CAGR
GDP (RMB' billion) (rounded down to the nearest whole number)	5,847	6,788	7,446	7,834	8,206	8,946	9,731	10,517	11,739	13,687	8.9%
Per capita GDP (RMB)	4,854	5,576	6,054	6,308	6,551	7,086	7,651	8,214	9,111	10,561	8.1%



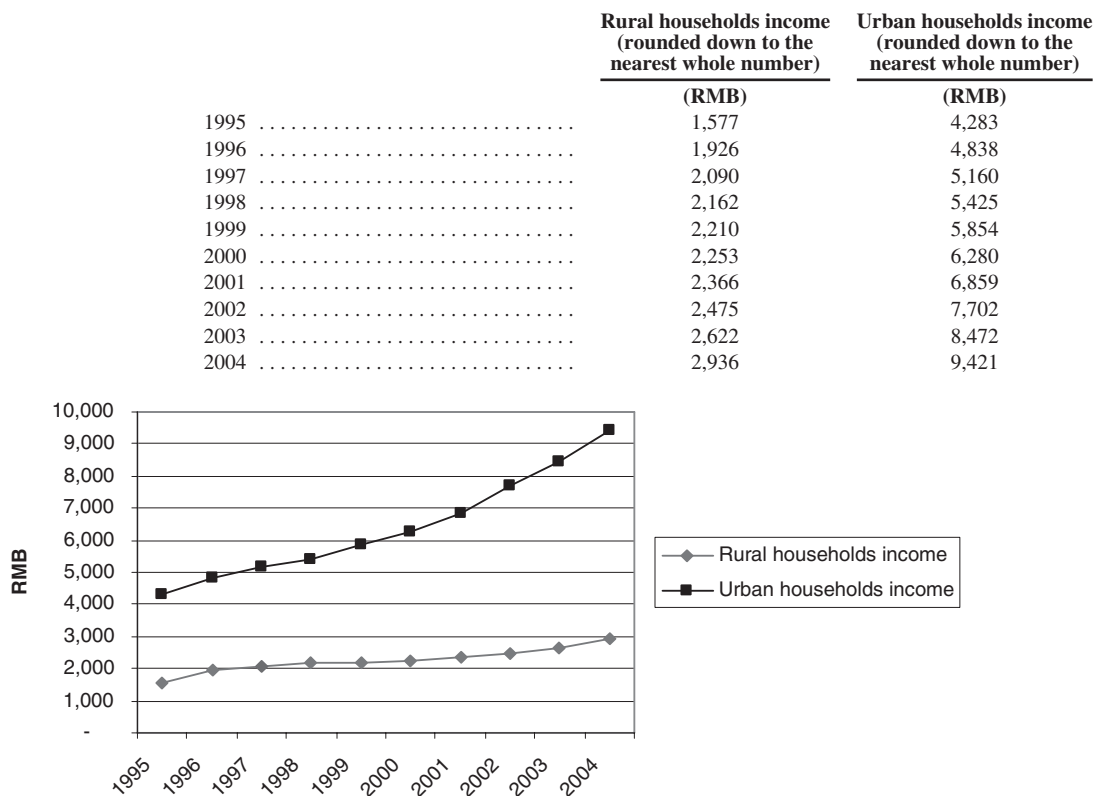
Quoted from the web site of the National Bureau of Statistics of the People's Republic of China, www.stats.gov.cn. Please see the section "General and Statutory Information—Sources" of this Prospectus for information regarding use of this source.

Purchasing power

The economic growth in the PRC, among other things, has resulted in increases in disposable income among the populace and an increase in consumption expenditure.

As illustrated in the table below, the per capita annual disposal income of urban households increased from approximately RMB4,283 in 1995 to approximately RMB9,421 in 2004. The per capita annual net income of rural households increased from approximately RMB1,577 in 1995 to approximately RMB2,936 in 2004. The charts below illustrate the income of the urban and rural households in the PRC from 1995 to 2004:

Figure 11: Income of urban and rural households in the PRC 1995 to 2004



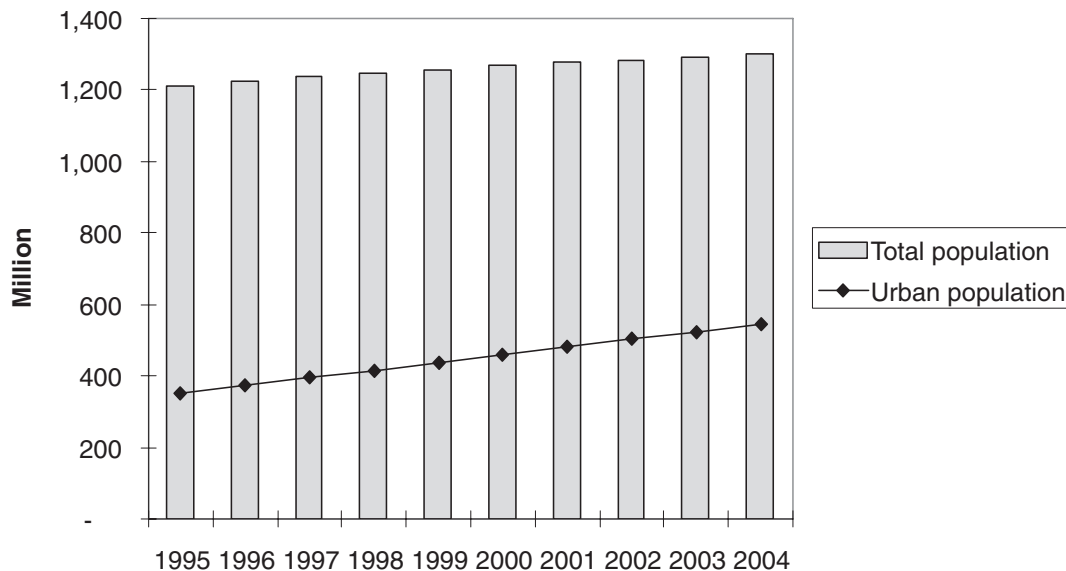
Quoted from the web site of the National Bureau of Statistics of the People's Republic of China, www.stats.gov.cn. Please see the section "General and Statutory Information - Sources" of this Prospectus for information regarding use of this source.

Urbanisation

The proportion of population in urban areas has increased from approximately 29.1% in 1995 to approximately 41.8% in 2004. The chart below illustrates the growth of the urban population in the PRC from 1995 to 2004:

Figure 12: Total population and rate of urbanisation in the PRC 1995 to 2004

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total Population (million)	1,211	1,224	1,236	1,248	1,258	1,267	1,276	1,285	1,292	1,300
Urban Population (million)	352	373	394	416	437	459	481	502	524	543
Rural Population (million)	859	851	842	832	820	808	796	782	769	757



Quoted from the web site of the National Bureau of Statistics of the People's Republic of China, www.stats.gov.cn. Please see the section "General and Statutory Information—Sources" of this Prospectus for information regarding use of this source.

RETAIL DISTRIBUTION IN THE PRC

Retail chain stores in the PRC have been developing rapidly in recent years. By the end of 2004, there were over 24,000 hypermarkets, supermarkets and convenience stores in the PRC.³⁴ According to Euromonitor, "supermarkets" refer to stores with a selling area of between 400 and 2,500 square metres. "Hypermarkets" refer to stores with a sales area of over 4,000 square metres. "Convenience stores" refer to shops selling a wide range of goods with extended opening hours, such as 7-Eleven.³⁵ With an increasing rate of urbanisation in the PRC, and the increasingly hectic lifestyle of urban dwellers, there is a considerable increase in demand for convenient channels that allows purchase of a broad selection of food and non-food products at extended hours, or even 24 hours a day and seven days a week.

For generations, traditional provision shops have been the most familiar places for rural consumers in the PRC to purchase their daily necessities. However, these traditional channels may be affected by supermarkets scheduled to venture into rural areas under the project of “Wan Cun Qian Xiang” (ten thousand villages and a thousand counties), initiated by China’s Ministry of Commerce in 2005. One of the targets to be achieved under the project is to build 250,000 new type farmhouse supermarkets covering 70% of counties and villages across the PRC between 2005 and 2010. The aim is to further tap into unleashed consumption needs in local rural areas and ultimately help realise a sustainable national economic growth. It is expected that 70,000 farmhouse supermarkets will be established by the end of 2005.³⁶ As a result, more good quality consumer brands with cheaper prices are expected to be directly available through supermarkets to local farmers.³⁶ To major manufacturers across various consumer product categories, a greater presence by supermarkets will help them to gain quicker access to more remote areas, hence helping them to achieve higher national share consolidations. The table below sets out the number of outlets, by distribution channels, for each of the hypermarket, supermarket and convenience store sectors in the PRC for the year 2002 through 2004:

Figure 13: Number of outlets by distribution channels (CAGR from 2002 to 2004)

	2002	2003	2004	CAGR from 2002 to 2004
Distribution channel				
Hypermarkets	1,550	2,129	2,637	30.4%
Supermarkets	10,281	11,717	14,073	17.0%
Convenience Stores	3,324	6,799	7,755	52.7%
Total	<u>15,155</u>	<u>20,645</u>	<u>24,465</u>	<u>27.1%</u>

Quoted from the web site of the National Bureau of Statistics of the People’s Republic of China, www.stats.gov.cn. Please see the section “General and Statutory Information—Sources” of this Prospectus for information regarding use of this source.

The table below sets out the annual sales of each of these retail formats in the PRC for the years 2002 to 2004:

Figure 14: Sales by distribution channels

	2002 (RMB million)	2003 (RMB million)	2004 (RMB million)	CAGR from 2002 to 2004
Distribution channel				
Hypermarkets	48,468	59,652	74,473	24.0%
Supermarkets	131,819	192,556	240,994	35.2%
Convenience Stores	4,916	8,354	13,826	67.7%
Total	<u>185,203</u>	<u>260,562</u>	<u>329,293</u>	<u>33.3%</u>

Quoted from the web site of the National Bureau of Statistics of the People’s Republic of China, www.stats.gov.cn. Please see the section “General and Statutory Information—Sources” of this Prospectus for information regarding use of this source.

Modern distribution channels such as hypermarkets, supermarkets and convenience stores play an important role in the retail distribution of confectionery and snacks, especially confectionery products in the urban areas of the PRC. According to Figure 15 below, value sales via supermarkets/hypermarkets accounted for 53.8% of the total retail sales value in 2005 up from 39.4% in 2000. Convenience stores, similarly, increased its share to 13.4% in 2005 from 7.6% in 2000. Wider variety of choice, cheaper retail prices due to bulk purchases, and extended opening hours have made these modern distribution outlets more attractive to consumers. In-store bakeries have significantly helped to boost sales of baked goods. As a result, according to Figure 16 below, supermarkets/hypermarkets’ share of the retail sales value of bakery products rose to 41.3% in 2005 from 27.5% in 2000, and independent food stores’ share decreased to 8.1% in 2005 from 23.2% in 2000.

The tables below illustrate the retail distribution format (focusing on the modern retail outlet) of confectionery and snacks in the PRC in 2000 and 2005:

Figure 15: Retail Sales of Confectionery by Distribution Format: % Analysis 2000/2005

% retail sales value	<u>2000</u>	<u>2005</u>
Supermarkets/hypermarkets	39.4	53.8
Independent food stores	30.6	21.8
Convenience stores	7.6	13.4
—Standard convenience stores	7.6	13.4
—Petrol/gas/service stations	—	—
Confectionery specialists	—	—
Internet sales	—	—
Discounters	—	—
Others	22.3	11.1
Total	<u>100.0</u>	<u>100.0</u>

Source: Euromonitor International. Please see the section “General and Statutory Information—Consents; —Sources” of this Prospectus for information regarding use of this source.

Figure 16: Retail Sales of Bakery Products by Distribution Format: % Analysis 2000/2005

% retail sales value	<u>2000</u>	<u>2005</u>
Supermarkets/hypermarkets	27.5	41.3
Independent food stores	23.2	8.1
Convenience stores	4.2	7.9
—Standard convenience stores	4.2	7.9
—Petrol/gas/service stations	—	—
Internet sales	—	—
Discounters	—	—
Others	45.0	42.7
Total	<u>100.0</u>	<u>100.0</u>

Source: Euromonitor International. Please see the section “General and Statutory Information—Consents; —Sources” of this Prospectus for information regarding use of this source.

Endnotes:

- (1) to (2) : Source: Euromonitor International. Please see the section “General and Statutory Information—Consents; —Sources” of this Prospectus for information regarding use of this source.
- (3) : “CAGR” refers to the Compounded Annual Growth Rate.
- (4) to (33) : Source: Euromonitor International. Please see the section “General and Statutory Information—Consents; —Sources” of this Prospectus for information regarding use of this source.
- (34) : Quoted from the website of the National Bureau of Statistics of the People’s Republic of China, www.stats.gov.cn. Please see the section “General and Statutory Information - Sources” of this Prospectus for information regarding use of this source.
- (35) to (36) : Source: Euromonitor International. Please see the section “General and Statutory Information—Consents; —Sources” of this Prospectus for information regarding use of this source.

HISTORY

The first company in the Group, Dongguan Hsu Fu Chi, was founded by the Executive Chairman, Mr. Hsu, Chen in 1992. The initial investors were Mr. Hsu, Chen and his brothers, Mr. Hsu, Keng (Chief Technology Officer), Mr. Hsu, Hang (Chief Operating Officer) and Mr. Hsu, Pu (who was not involved in any executive management capacity of the Group). Prior to establishing the Group's business in the PRC, Mr. Hsu, Chen managed the sales and distribution of snack food products under the brand “徐记” (Hsu Chi) in a business run by Mr. Hsu, Pu in Taiwan (see “Business—Competitive Strengths—Experienced management” of this Prospectus). Dongguan Hsu Fu Chi's initial business was the production and sale of candies, cakes and cookies, preserved fruits and other snacks.

In 1997, Transpac Industrial, Mr. Hsu, Chen, Mr. Hsu, Hang, Mr. Hsu, Keng and Mr. Hsu, Pu and other investors invested in Hsu Fu Chi Holdings, a company incorporated in BVI which became the holding company of Dongguan Hsu Fu Chi. Dongguan Hsu Chi was established as a subsidiary of Hsu Fu Chi Holdings in 1997. Dongguan Anco was established in 1993 and became a subsidiary of Hsu Fu Chi Holdings in 1997. Dongguan Anco is in the business of manufacturing preserved fruits. As the Group has decided to phase out the manufacture of preserved fruits, the Group intends to wind-up Dongguan Anco. Hsu Fu Chi (Hong Kong) and Top Ocean were established as subsidiaries of Hsu Fu Chi Holdings in 1998 and 2003 respectively.

The sales office network began with the establishment of the first sales office in Beijing in 1998. Please see “Business—Sales and Distribution” of this Prospectus for further information on the sales offices network.

The Company was incorporated in 2006. In preparation for the Invitation, the Company undertook the Restructuring Exercise which involved the acquisition by the Company of the entire issued share capital of Hsu Fu Chi Holdings. See “Restructuring Exercise” of this Prospectus.

Hsu Fu Chi Foods and Chengdu Hsu Chi were established as subsidiaries of Hsu Fu Chi Holdings in 2006.

BUSINESS

OVERVIEW

The Group markets a diverse range of its own manufactured confectionery products in the PRC and uses its extensive sales network and strong brand to generate sales in the PRC.

The Group's key categories of products are Candy Products, Cake and Cookie Products and Sachima Products. Under the category of Candy Products, candies, such as the Chinese New Year Candies are the primary products. Jelly and pudding and chocolate products are also included under this category as secondary products. The major types of products under the category of Cake and Cookie Products are short cakes, high fibre cookies and wafer cookies. The major types of Sachima Products are egg Sachima, egg yolk Sachima, egg crisp Sachima and sesame Sachima.

The Group adopts a multi-product strategy under which its products are sold under its primary brand “徐福记” (Hsu Fu Chi) as well as its secondary brands, such as “DoDo”, “Chaobii” and “磨堡” (Mo Bao). Over the years, the Group has received many awards and certifications in the PRC for its products and brands (see “Business—Major Awards and Certifications” of this Prospectus). The Group's primary brand “徐福记” (Hsu Fu Chi) has been recognised as the top selling brand of candies in the PRC for eight consecutive years (from 1998 to 2005) by the China Industrial Information Issuing Center. Its popularity is especially notable during the Chinese New Year festivities due to the demand for the Group's Chinese New Year Candies. The Group's Cake and Cookie Products have been awarded the “中国名牌产品” (China Top Brand (for biscuits of “Hsu Fu Chi” brand)) in 2006. Sachima is one of the Group's best known products and has been recognised as the “广东省名牌产品” (Top Brand in Guangdong Province) in 2005 by 广东省质量技术监督局 (Guangdong Provincial Bureau of Quality and Technical Supervision).

The Group has built its sales and distribution operations around its Sales Headquarters which controls the Group's sales offices. The Group embarked on setting up a sales office network in 1998 and as of the Latest Practicable Date, it operated 56 sales offices across most of the PRC. With the control provided by the Sales Headquarters over the sales offices, the Group has an effective means of controlling the range and type of the products sold in the sales channels. The sales offices provide local market and sales information to the Sales Headquarters to formulate the Group's sales and marketing plans. These sales offices focus primarily on direct sales to its customers, including major hypermarket and supermarket chains, such as Carrefour and Wal-Mart.

As of the Latest Practicable Date, the Group's administrative headquarters and Sales Headquarters are located in Dongguan. The Group's products are manufactured in its modern manufacturing facilities in Dongguan which have a total productive capacity of approximately 176,000 tonnes per annum (rounded down to the nearest thousand) as of 30 June 2006. The Group uses mainly third party carriers to transport the finished products to its customers.

DEVELOPMENTS

The Group has developed its confectionery business in the PRC in three broad phases.

Getting to Market

In 1994, the Group focused on creating and selling the Group's Chinese New Year Candies which were quality traditional candies in modern and attractive packaging. The development, marketing and sales of these candies were based on the Chinese custom in the PRC of consuming candies and exchanging auspicious gifts of candies among relatives and friends during the Chinese New Year festivities. The Group marketed these products under its primary brand “徐福记” (Hsu Fu Chi) and built up consumer awareness of its brand and products.

In addition to Candy Products, the Group also developed other key product categories, namely the Cake and Cookies Products and Sachima Products. For example, it identified cookies and cakes as a type of convenient and tasty food product that staves off hunger in between meals, which fits the changing lifestyles in the PRC. The Group designed and sold its Cake and Cookie Products, in general, as premium products, with pricing that is generally higher than other local producers of cakes and cookies. The Group's Sachima Products were developed by using modern production equipment and techniques to produce traditional tasty snacks with consistent quality and texture.

Given the less developed state of transportation and logistics network in the PRC during this period, it was not feasible for the Group to gain a wide reach if it had relied solely on its own sales efforts. To develop a wide following among consumers in the PRC, the Group sold its products through third party sales channels, leveraging off their distribution networks in the PRC.

Improving Product Quality

In 1997, the Group began building up brand loyalty among consumers by improving product quality. The Group focused on enhancing its production capabilities to deliver better products. Through improving product quality, the Group aimed to differentiate its products from competing products. In 1998, the Group installed modern systems and machines imported from Germany and Japan as well as streamlined its production processes. Some of the machinery were made to the Group's specification to cater to the production needs of the Group. More importantly, the enhanced production capabilities enabled the Group to produce products with consistent taste and texture as well as produce new products, both of which are critical in meeting increasing and shifting consumer demands.

Building an Extensive Organic Sales Network and Increasing Productive Capacity

Since 2000, modern sales channels began to play an increasingly important role in the PRC retail market. Hypermarkets and supermarkets were growing in numbers and becoming more popular. The Group decided to seize the opportunity to sell directly to these modern sales channels instead of relying on third party distributors. The Group had expanded from its first sales office in Beijing in 1998 to seven sales offices by 2000 and began to focus its sales efforts through the sales office network. Over the years, the Group continued to expand this network and as of the Latest Practicable Date, the Group operated 56 sales offices across most of the PRC. Concurrently, the Group increased its productive capacity to keep up with the increasing sales.

In this current phase, the Group believes that control over its own sales network is the key to growing its revenue. With improving transportation and logistics networks in the PRC, the Group is able to employ its own sales force to generate sales instead of relying primarily on third party distributors.

COMPETITIVE STRENGTHS

The Group believes that its competitive strengths are as follows:

- **Sales Headquarters overseeing extensive sales network**

As of the Latest Practicable Date, the Group had an extensive sales network consisting of 56 operating sales offices across most of the PRC. As of 30 June 2006, the Group had a sales force in the PRC of more than 4,000 personnel. The Group supplements this sales network by using third party distributors. Within the geographical area covered by each sales office, it manages the sales and distribution of the Group's products, collects the market response to these products and provides logistics support and co-ordination for the distribution of such products. The Sales Headquarters oversees the Group's sales and distribution operations by, among other things, formulating sales plans, controlling the flow of information, establishing standard operating procedures and staffing sales offices with suitable managers and sales personnel. With the control provided by the Sales Headquarters over the sales offices, the Group has an effective means of controlling the range and type of products sold as well as the sales channels for selling them. This also allows the Group to vary its product mix in response to local consumer tastes and preferences and the manner of distribution. The Group seeks to respond quickly and effectively to the market by using this sales network and its sales force.

In addition, the use of ERP enables the Group to keep track of inventories of its products, enhancing its ability to produce and sell products in diverse product segments. Please see "Business—Competition" of this Prospectus for further information on the competitive landscape of the consumer market in the PRC for confectionery products.

- **Experienced management team**

The Group has an experienced management team with extensive industry experience and a track record in growing the Group's business—namely, delivering year on year growth in revenue of the Group from FY 2004 to FY 2005 and from FY 2005 to FY 2006. This team has developed and built a strong brand, "徐福记" (Hsu Fu Chi), and established an extensive sales network for the sales and distribution of the Group's products in the PRC.

The Executive Chairman, Mr. Hsu, Chen, has played a critical role in the management of the Group since its establishment. Prior to founding the Group, he had spent about 16 years (from 1976 to 1992) managing the sales and distribution of snack food products under the brand “徐记” (Hsu Chi) in Taiwan in a business run by his brother, Mr. Hsu, Pu. Building on his sales and distribution experience, Mr. Hsu, Chen created the Group’s primary brand “徐福记” (Hsu Fu Chi) and was instrumental in developing the Group’s key categories of products and the Group’s sales network. Each of Mr. Hsu, Chen, Mr. Hsu, Hang and Mr. Hsu, Keng, has more than 20 years of experience in the confectionery industry in the PRC. As of 30 June 2006, they were supported by 386 managers and supervisors.

- **Strong customer relationships**

The Group has established strong relationships with certain modern sales channel customers, such as the following hypermarket and supermarket customers:

International and national hypermarkets and supermarkets

- 家乐福 (Carrefour), since 1999
- 大润发 (RT-Mart), since 1998
- 好又多 (Trustmart), since 1997
- 沃尔玛 (Wal-Mart), since 1998
- 易初莲花 (Lotus), since 1999
- 麦德隆 (Metro), since 1999

Regional and local supermarket chains

- 家乐 (Home Club), since 1999
- 世纪联华 (Century Lianhua), since 2000
- 新一佳 (A Best), since 1999

The Group supplies its products to substantially all the outlets of the above customers in the PRC. In addition to displaying the Group’s products at these outlets, the Group has set up Specialty Counters in most of the major outlets of these hypermarkets and supermarkets (except 麦德隆 (Metro)) to promote its products through its own permanent sales personnel.

- **Popular brand “徐福记” (Hsu Fu Chi) enhanced by brand management**

The Group’s brand “徐福记” (Hsu Fu Chi) is a popular brand for confectionery products in the PRC. As an indication of its popularity, the Group’s brand “徐福记” (Hsu Fu Chi) was recognised as 中国名牌产品 (China Top Brand (for biscuits of “Hsu Fu Chi” brand)) in 2006, 中国消费者(用户)十大满意品牌 (China’s Consumers’ Ten Most Satisfied Brand) in 2005, 中国名牌产品 (China Top Brand (for candies of “Hsu Fu Chi” brand)) in 2004 and 广东省著名商标 (Guangdong Province’s Top Brand) in 2003. This popularity is especially notable during the Chinese New Year festivities due to the demand for the Group’s Chinese New Year Candies. Sachima is one of the Group’s best known products and has been recognised as a “Top Brand in Guangdong Province” in 2005 by the Guangdong Provincial Bureau of Quality and Technical Supervision. The Group markets most of its products under the primary brand “徐福记” (Hsu Fu Chi), both leveraging on as well as enhancing the brand.

The value of the brand is enhanced by marketing and promotional activities, which vary by sales channels. The Group conducts random checks on the pricing of its products for price differences among different retail stores to avoid brand devaluation. The Group’s current policy is to take legal action, to the extent practicable, against any known material infringement of its trademarks, in order to protect its brand image.

- **Product development capabilities**

The Group revises and updates its product development plan on an annual basis. After each Sales Peak Season, the Group embarks on a product development plan for its products with the view towards

increasing sales for the period leading up to and including the next Sales Peak Season. The first phase of this plan involves gathering market information and identifying consumer trends. The second phase involves the Group analysing its products in terms of their sales performance using the market information gathered in the first phase. In the last phase, the Group will upgrade or improve its production facilities to manufacture new products as well as discontinue the production of products which are not performing well. The product development team has access to internal and external resources. Within the Group, the product development team obtains feedback from consumers through the Group's sales force and sales network. The product development team is familiar with the manufacturing processes for many types of confectionery products. The Group uses this manufacturing know-how to work out the manufacturing processes involved in the manufacture of new confectionery products. In terms of external resources, the Group taps on the know-how of ingredient suppliers in the food industry.

By combining the efforts of the product development team, the sales team and the production team, the Group has introduced a large number of new confectionery products. In FY 2006 alone, the Group introduced more than 70 new confectionery products and discontinued 30 products. As of the Latest Practicable Date, the Group had more than 400 products in the market.

- **Production capabilities**

The Group utilises modern equipment imported from countries such as Germany and Japan at its production facilities. Some of the Group's equipment are made to specification in accordance with the Group's production needs. By modifying production methods and equipment and sharing production facilities, the Group achieves shorter product development cycles and lower production costs. The Group's productive capacity is planned based on the historical and forecasted production demand during the Production Peak Season and it produces most of its products during the Production Peak Season. The Group shuts down surplus production lines, when necessary, during the non-Production Peak Season. Quality control procedures are included in the manufacturing processes, starting from the receipt of raw materials and continuing at various critical junctures of the manufacturing process. A final quality check is conducted on the products before they are packaged. The Group's production capabilities allow the Group to produce products with consistent taste and texture and to produce new products, in order to meet changing consumer demand. The Group was accredited with the internationally recognised ISO 9001-2000 certification in 2002 and was awarded the HACCP certification in 2004. In addition, its candies were recognised as 产品质量国家免检 (Product Exemption from Quality Surveillance Inspection) in 2004 by the State General Administration of the PRC for Quality Supervision and Inspection and Quarantine.

- **Wide range of quality confectionery products**

The Group has developed a wide range of confectionery products in the PRC in a variety of attractively packaged forms. By offering a wide spectrum of products, the Group caters to the changing taste buds of the consumers in the PRC, which vary with geographical region and season of the year (for example, gummy sweets do not retain their elasticity or chewy texture in freezing climates). The individual packaging of the Group's products offers consumers variety by allowing them to buy different types of the Group's products in a single purchase and provides the Group with flexibility to tailor the packaging of its products according to the nature of the sales channels through which they are sold. For example, the Group has designed a compact 45g Sachima package for sales at convenience store chains. Individual packaging also keeps the products fresh for a longer period of time. The sales and marketing team is experienced in analysing changing consumer preferences and is supported by an established market information network through the Group's sales offices and Specialty Counters. The Group has product lines targeted at the Chinese New Year and at different consumer groups. For example, the Group introduced the "DoDo" series, comprising of confectionery products created to appeal to children and priced with their allowances budget in mind.

BUSINESS STRATEGY

The Group's business strategy is based on its belief that the PRC confectionery market will continue to prosper in the long term. Correspondingly, the Group has formulated the following growth strategies:

- **Continuing primary focus on the PRC market**

The consumption of confectionery products in the PRC, on a per capita basis, is low by comparison to many developed countries. The Group believes that the demand for confectionery products will increase as consumers in the PRC become more affluent. See "Industry—Macroeconomic Factors Favourable to the Development of the PRC Confectionery Industry—Purchasing power" of this Prospectus for further information on the average household's income in the PRC. The Group believes that it will be able to expand its sales network by gradually opening new offices without having to overhaul its sales network system, to increase its market penetration and hence to achieve growth in sales.

In the future, the Group may consider diversifying its markets beyond the PRC by selling more of its products outside the PRC at an appropriate time to be determined by the Group.

- **Leveraging on growth of sales channels**

The Group's revenue has grown from distributing its products through different sales channels. Please see "Business—Sales and Distribution—Sales channels" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Discussions of Combined Results of the Group for the Relevant Periods" of this Prospectus. This diversification of customers enables the Group's products to penetrate different segments of consumers from different income and geographical segments within the PRC and having different purchasing patterns. The Group currently focuses on sales to hypermarkets and supermarkets. The Group seeks to leverage on the growth of the different sales channels, in particular, those sales channels that generate large volume of sales, such as hypermarkets. The Group seeks to have more direct sales as that will assist the Group to position its brand and the pricing of its products in the PRC market. In addition, the Group intends to expand its sales to the suppliers who in turn sell the Group's products to Neighbourhood Shops, to the extent that the creditworthiness of these suppliers is acceptable to the Group.

- **Enhancing brand image**

The primary brand of the Group is "徐福记" (Hsu Fu Chi), which has been in use for more than a decade in the PRC. The Directors believe that active promotion of the brand is essential to maintain consumer loyalty and expand brand recognition. Displaying its products at suitable locations in Retail Points and Specialty Counters could raise brand awareness amongst consumers. Packaging plays a part in reinforcing the Hsu Fu Chi brand through the use of attractive packaging in bright colours. The Group also relies on its customers and promotional activities to increase visibility of its products.

- **Continuing focus on diverse range of products**

PRC consumers have taste preferences that vary with age, gender and other profiles, geographical location and season of the year. With increasing affluence and sophistication of the consumers in the PRC, demand trends and preferences for confectionery products are expected to constantly evolve. The Group believes that a product strategy that focuses on delivering a diverse range of products in varying packaging and sizes enables the Group to reach out to a wider market as well as reduce its dependency on any single product or segment. The Group has a successful history of developing key product categories. See "Business—Developments—Getting to Market" of this Prospectus.

- **Enhancing production capabilities**

As a manufacturer of its own branded products, the Group believes that improving product quality as well as containing manufacturing costs are critical to its success. While the Group has focused its manufacturing activities at Dongguan, it intends to diversify its manufacturing capabilities by building new factories in other locations in the PRC in order to contain manufacturing and transportation costs as well as increase profitability. The Group is constructing a production facility in Sichuan and is considering the suitability of setting up a production facility in Henan.

In addition, the Group intends to develop production capabilities in non-confectionery products required in the manufacturing process, such as packaging materials and processed agricultural raw materials, so that it can directly control the quality and costs of such products.

Please see “Future Plans” of this Prospectus for the Group’s expansion plans.

FUTURE PLANS

In tandem with its business strategy, the Group intends to:-

- expand its sales office network and enhance logistics support;
- enhance its marketing efforts to promote its brand; and
- enhance its production capabilities,

as described below.

In addition, the Group seeks to constantly evaluate new business opportunities. Currently, the Group is considering the feasibility of producing food products which are beneficial to health, such as nutraceuticals. It is in the process of seeking regulatory approval in the PRC for such production and has yet to make any decision to invest in this new business. The Company will make the requisite announcements, if and to the extent required by the Listing Manual, if and when a decision has been made to invest in this new business.

Expansion of sales network and enhancing logistics support

The expansion of the Group’s sales office network is expected to continue to increase its market penetration. The rate of expansion depends on the growth in the market and the extent of its market penetration.

The establishment of a new sales office, unlike a factory, does not require substantial capital commitments. The Group has embarked on setting up additional sales offices in various locations in the PRC and has plans to establish more than five new sales offices by 30 June 2007. The Group has invested in modern technology which enhances the Sales Headquarters’ ability to monitor and control the sales offices. Currently, the estimated expenditure for setting up a sales office is in the region of RMB500,000 to RMB1,000,000. The Group intends to finance the expansion of its sales network using cashflow from operations, existing cash resources and part of the net proceeds from the issue of the New Shares.

To support its sales network, the Group intends to strengthen its logistics management and expand its logistics network, to the extent that the Group is able to secure financing for such expansion. In line with this plan, the Group is setting up regional logistics centres in Sichuan and Liaoning in FY 2007. It also intends to set up regional logistics centres in provinces and cities such as, Fujian, Zhejiang and Tianjin by no later than the end of FY 2010. The table below sets out information regarding financing of these regional logistics centres:

Estimated total investment	Amount expended as of the Latest Practicable Date	Method of financing the balance
(RMB)	(RMB)	
140,310,000	24,162,000 ⁽¹⁾	Cashflow from operations, existing cash resources and part of the net proceeds from the issue of the New Shares

Notes:

(1) This expenditure has been financed by using cashflow from operations and existing cash resources.

Enhancing marketing efforts to promote brand

The Group intends to promote its brand and strengthen its brand image by increasing the expenditure on promoting its Chinese New Year Candies and Sachima. The Group estimates the total expenditure on its marketing efforts to be in the region of RMB50,000,000 to RMB100,000,000 by the end of FY 2009. These marketing efforts may include various forms of media advertisements and promotions.

Enhancing production capabilities

The Group is in the process of enhancing its production capabilities in the manner described in the table below:

Description	Current purpose	Construction commencement date	Estimated completion date	Estimated commercial production commencement date	Estimated increase in productive or processing capacity per annum in tonnes
Expansion of production facilities to produce confectionery products in Dongguan (“Expansion in Dongguan”)	To increase production of confectionery products	Q2 FY 2006	Q1 F 2007 to Q1 FY 2008 ⁽²⁾	Q2 FY 2007 to Q2 FY 2008 ⁽²⁾	37,000 ⁽³⁾
Building of a production facility in Dongguan to manufacture packaging materials (“Packaging Materials Production Facility”)	To manufacture packaging materials to supplement the Group’s packaging needs, in particular, during the Production Peak Season. Currently, the intended purpose of this facility is for the Group’s own production use and not for any other purposes	Q2 FY 2007 ⁽¹⁾	Q2 FY 2007	Q2 FY 2007	1,500
Building of a new production facility to produce confectionery products in Sichuan (“Expansion in Sichuan”)	To reduce transportation costs that would otherwise have been incurred if the products were made in Dongguan	Q2 FY 2007 ⁽¹⁾	Q1 FY 2008	Q2 FY 2008	11,000 ⁽³⁾
Building of an agricultural products processing facility in Henan (“Agricultural Products Processing Facility”)	To supplement the raw materials that the Group procures from third party suppliers. Currently, the intended purpose of this facility is for the Group’s own use and not for any other purposes	Q2 FY 2007 ⁽¹⁾	Q1 FY 2008 to Q1 FY 2009 ⁽²⁾	Q1 FY 2008 to Q2 FY 2009 ⁽²⁾	20,000 ⁽⁴⁾

Notes:

- (1) The dates indicated are estimated dates for the commencement of the construction.
- (2) The expansion or construction as well as commercial production of these facilities are carried out in phases.
- (3) These numbers have been rounded down to the nearest thousand.
- (4) This number refers to the processing capacity of agricultural raw materials.

The table below sets out information regarding financing of the enhancement in production capabilities and the amount expended, as of the Latest Practicable Date:

<u>Description of facility</u>	<u>Estimated total investment</u> (RMB)	<u>Amount expended as of the Latest Practicable Date</u> (RMB)	<u>Expected method of financing the balance</u>
Expansion in Dongguan	257,470,000	222,345,000 ⁽¹⁾	Cashflow from operations, existing cash resources, bank loans and part of the net proceeds from the issue of the New Shares
Packaging Materials Production Facility	13,300,000	4,121,000	Cashflow from operations, existing cash resources and bank loans
Expansion in Sichuan	44,690,000	1,900,000 ⁽¹⁾	Cashflow from operations, existing cash resources, bank loans and part of the net proceeds from the issue of the New Shares
Agricultural Products Processing Facility	200,000,000	Nil	Cashflow from operations, existing cash resources and bank loans

Notes:

(1) This expenditure has been financed by using cashflow from operations and existing cash resources.

The Group is also considering the suitability of setting up a production facility for its confectionery products in Henan. However, the Group has yet to make any decision to invest in this production facility. The Company will make the requisite announcements, if and to the extent required by the Listing Manual, if and when a decision has been made to invest in this production facility.

With respect to the regulatory requirements and environmental issues materially affecting the construction of the facilities described above, please see “Business—Government Regulations in the PRC—Regulations governing construction of new facilities” of this Prospectus.

PRODUCTS

Through the Group’s product development and production capabilities, the Group’s product line has evolved into a wide spectrum of products in different forms, shapes, textures, flavours and packaging, enabling it to reach out to a wider market as well as reduce its dependency on any single product or segment. As of the Latest Practicable Date, the Group had more than 400 products in the market.

The Group’s key categories of products are as follows:

(a) Candy Products

This category consists primarily of candies, such as the Chinese New Year Candies. Jelly and pudding and chocolate products are also included under this category as secondary products. The Group produces over 180 candies under the brand “徐福记” (Hsu Fu Chi). The major products under this category are 酥心糖 (peanut crisp candies), 牛轧糖 (nougat), 橡皮糖 (gummies) and 果汁软糖 (fruit juice chewy candies). In addition, the Group introduced the “DoDo” series, comprising of confectionery products created to appeal to children.

The Group markets over 70 Chinese New Year chocolate products under the brand “Chaobii”. The major products under this category are 中式特色风味软馅巧克力 (Chinese style chocolate with soft fillings), 新年金币巧克力 (Chinese New Year gold coin chocolates), 牛奶巧克力 (milk chocolate) and 三角巧克力 (triangle chocolates).

The Group markets over 50 jelly and pudding products under the brand “徐福记” (Hsu Fu Chi). The major products under this category are 含乳布丁 (milk pudding), 布酪果冻 (jelly pudding) and 布甸果冻 (jelly).

For each of FY 2004, FY 2005 and FY 2006, the sales of Candy Products accounted for approximately 51.8%, 51.1% and 48.8% respectively of the Group’s revenue. In particular, the sales of its Candy Products are especially strong (see “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Factors Affecting Results of Operations and Financial Condition—Seasonality” of this Prospectus) in the Sales Peak Season.

(b) Cake and Cookie Products

The Group markets over 85 Cake and Cookie Products under the brand “徐福记” (Hsu Fu Chi). The major products under this category are 包馅酥 (Taiwanese style short cakes), high fibre cookies and 日式煎饼 (Japanese style wafer cookies).

For each of FY 2004, FY 2005 and FY 2006, the sales of Cake and Cookie Products accounted for approximately 27.7%, 28.0% and 28.9% respectively of the Group’s revenue.

(c) Sachima

Sachima is one of the most well-known products of the Group. The Group markets over 15 Sachima Products under the brand “徐福记” (Hsu Fu Chi). The major products under this category are 鸡蛋沙琪玛 (egg Sachima), 蛋黄沙琪玛 (egg yolk Sachima), 蛋酥沙琪玛 (egg crisp Sachima) and 芝麻沙琪玛 (sesame Sachima). The Directors believe that the Group is one of the major producers of Sachima in PRC.

For each of FY 2004, FY 2005 and FY 2006, the sales of Sachima Products accounted for approximately 20.5%, 20.9% and 22.3% respectively of the Group’s revenue.

By offering a wide spectrum of products, the Group caters to the varying taste buds of the consumers in the PRC, which vary with geographical region and seasons of the year (for example, gummy sweets do not retain their elasticity or chewy texture in freezing climates). The wide spectrum of products also caters to the varying taste buds of different consumer age groups. For example, the “DoDo” series of confectionery products was created to appeal to children and priced with their allowances budget in mind.

Packaging the finished products in attractive packaging with bright colours enhances the brand image. As the products are individually packaged, it is more convenient for consumers to carry them around as snacks and offers consumers variety by allowing them to buy different types of the Group’s products in a single purchase. The Group is also able to tailor the packaging of its products according to the nature of the sales channels through which they are sold. For example, the Group has designed a compact 45g Sachima package for sales at convenience store chains. Individual packaging also keeps the product fresh for a longer time. Please see “Business—Quality Control” of this Prospectus for examples of quality certification of the Group’s products.

Sales of Sachima Products has grown substantially from FY 2004 to FY 2006 (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Discussions of Combined Results of the Group For the Relevant Periods” of this Prospectus) and in FY 2006, the Group has expanded its portfolio of confectionery products which were created to appeal to children and priced with their allowances budget in mind.

SALES AND DISTRIBUTION

Sales in the PRC and sales network

In FY 2006, more than 95% of the Group’s revenue was derived from the sales of the Group’s products in the PRC. As of 30 June 2006, the Group’s sales force in the PRC consisted of more than 250 sales supervisors and more than 4,000 permanent sales personnel in aggregate. As of the Latest Practicable Date, the Group’s products are distributed to consumers in the PRC through sales channels directly controlled by the Group through more than 13,000 Retail Points of varying sizes ranging from small kiosks to hypermarkets.

The Group has built its sales and distribution operations around its Sales Headquarters which controls the Group’s sales offices. As of the Latest Practicable Date, the Group operated 56 sales offices across most of the PRC. This extensive sales network is supplemented by the Group’s third-party distributors.

The Sales Headquarters oversees the sales and distributions operations by:-

- controlling flow of information between the Sales Headquarters and sales offices
- establishing standard operating procedures at sales offices and monitoring their compliance with such procedures
- formulating sales plans for sales offices and monitoring their implementation
- planning and managing a consistent brand image (including devising advertising strategy)
- staffing sales offices with suitable managers and permanent sales personnel

The sales offices provide coverage for the sales and distributions operations. Each sales office has a geographical area covered by it. Within its area of coverage, it:-

- manages the sales and distribution of the Group's products in that area;
- collects the market response to these products in that area; and
- provides logistics support and co-ordination for the distribution of such products in that area.

The Group has sales offices in major cities in the PRC such as Beijing, Shanghai, Chengdu, Dalian, Hangzhou, Qingdao and Wuhan.

With the control provided by the Sales Headquarters over a sales office, the Group has an effective means of controlling the range and type of the products sold as well as the sales channels that sell them, in the area covered by that sales office. This allows the Group to vary its product mix in response to local consumer tastes and preferences and the manner of distribution, which may vary from region-to-region. In addition, the sales offices provide local market and sales information to the Sales Headquarters which uses the information to formulate the Group's sales and marketing plans. To enable the Sales Headquarters to communicate effectively with the sales offices, the Group uses communications systems such as email and video conferencing as well as standard, customised reporting procedures across its sales network.

The Group seeks to respond quickly and effectively to the market through its sales network and sales force. If the Group detects (through market feedback from its own sales force) that a particular product type is gaining popularity in a certain part of the PRC, it could increase its production volume, and develop similar products to increase sales. In contrast, if the Group detects a product that is losing favour with consumers, it is able to replace or modify such product on a timely basis.

The Sales Headquarters is located at the Group's facilities in Dongguan, close to the Group's production operations. This facilitates co-ordination for the supply of products in order to implement the Group's sales and marketing plans. This allows the Group to control the quality, quantity, packaging and costs of its products in line with its sales and marketing plans. The timely and effective co-ordination between production and sales is crucial during the Production Peak Season and Sales Peak Season. See "Business—Future Plans" of this Prospectus for information on the Group's future plans to set up new production facilities.

The Group intends to grow its sales office network in line with its market penetration in the PRC and expects its sales network to increase from its current 56 operating sales offices to more than 60 operating sales offices by 30 June 2007.

Sales channels

The Group currently sells its products through six sales channels segmented by customer types and relationships. The six sales channels enable the Group's products to reach consumers from different income and geographical segments within the PRC. Each sales channel represents a different customer group.

(a) International and national hypermarkets and supermarkets

The Group sells its products directly to international and national hypermarket and supermarket chains in the PRC, such as Wal-Mart, Carrefour and 好又多 (Trustmart).

(b) Regional and local supermarket chains

The Group sells its products directly to regional and local supermarket chains, such as 联华 (Lian Hua) and 物美 (Wu Mei).

(c) Local supermarkets

The Group sells its products directly to local supermarkets, such as 上海好宝钢 (Shanghai Hao Bao Gang Supermarket), 广州光百 (Guangzhou Guang Bai Department Store), 深圳美味思 (Shenzhen Mei Wei Si Supermarket) and 东莞金沙湾 (Dongguan Jin Sha Wan Supermarket).

(d) Distributors

The Group sells its products to third party distributors to complement the sales coverage of its sales offices.

(e) Convenience stores chains

The Group sells its products directly to chains of convenience stores, such as 7-Eleven, 红旗 (Hong Qi) and 好德 (Hao De).

(f) Suppliers to Neighbourhood Shops

The Group sells its products to suppliers who in turn sell the Group's products to Neighbourhood Shops.

Modern sales channels (such as hypermarket and supermarket chains, regional and local supermarket chains and convenience store chains) have developed significantly in the PRC since 2000. The Group seeks to position itself to take advantage of this growth by focusing on establishing a strong sales track record for its products in these chains with the objective of building strong relationships with them.

In contrast, traditional sales channels (i.e. sales to suppliers who in turn sell the Group's products to Neighbourhood Shops) have a long presence in PRC. Retail Points in traditional sales channels are numerous and located across most of the PRC. Since 2003, the Group has increased its sales force to focus also on customers in traditional sales channels.

Specialty Counters

In addition to the sales channels, the Group has set up Specialty Counters since 1997 for the Group's products in various hypermarket and supermarket chains. These Specialty Counters are operated by the Group. The Group stations its own permanent sales personnel as promotional staff responsible for the sales and promotion of the Group's products at these Specialty Counters in order to increase brand awareness, generate sales and obtain consumer feedback. In addition, as the Group's products are individually packaged, consumers are able to buy different types of the Group's products in a single purchase at these Specialty Counters. As of the Latest Practicable Date, the Group operated more than 1,800 Specialty Counters in the PRC.

Sales outside the PRC

Currently, sales of the Group's products outside the PRC are insignificant. In FY 2006, less than 5% of the Group's revenue was derived from the sales of the Group's products outside the PRC. In the future, the Group may market more of its products outside the PRC at an appropriate time to be determined by the Group.

Logistics Support and Co-ordination

The Group uses mainly third party carriers to transport its products to customers. In addition, the Group has warehousing facilities of varying capabilities at its sales offices. Please see "Business—Properties" of this Prospectus for further information on these warehouses. Logistics support and co-ordination is provided by the sales offices and the Group's regional distribution centres in distributing products. The Group intends to use the new facilities in Sichuan and Liaoning to increase its logistics capability—see "Business—Future Plans" of this Prospectus.

CUSTOMERS AND SUPPLIERS

Customers

The Group has a diversified customer base, without any concentration of major customers. In each of FY 2004, FY 2005 and FY 2006, no single customer accounted for 5 per cent. or more of the Group's total revenue.

Saved as disclosed in the "Interested Person Transactions and Potential Conflicts of Interests" section of this Prospectus, to the best of their knowledge, none of the Directors or Controlling Shareholders or any of their associates has any interest, direct or indirect, in any entity which is a customer of the Group as at the Latest Practicable Date.

Suppliers of raw materials and packaging materials

The Group has a diversified supplier base, without any concentration of major suppliers. In each of FY 2004, FY 2005 and FY 2006, no single supplier accounted for 5 per cent. or more of the Group's total purchases of raw materials and packaging materials.

The main raw materials purchased by the Group are flour, granulated sugar, sugar syrup, eggs, palm oil, peanuts, butter oil and milk powder. The main packaging materials purchased by the Group are plastic materials, cardboard and other peripheral packaging materials.

Saved as disclosed in the “Interested Person Transactions and Potential Conflicts of Interests” section of this Prospectus, to the best of their knowledge, none of the Directors or Controlling Shareholders or any of their associates has any interest, direct or indirect, in any entity which is a supplier of the Group as at the Latest Practicable Date.

PRODUCTION PROCESS

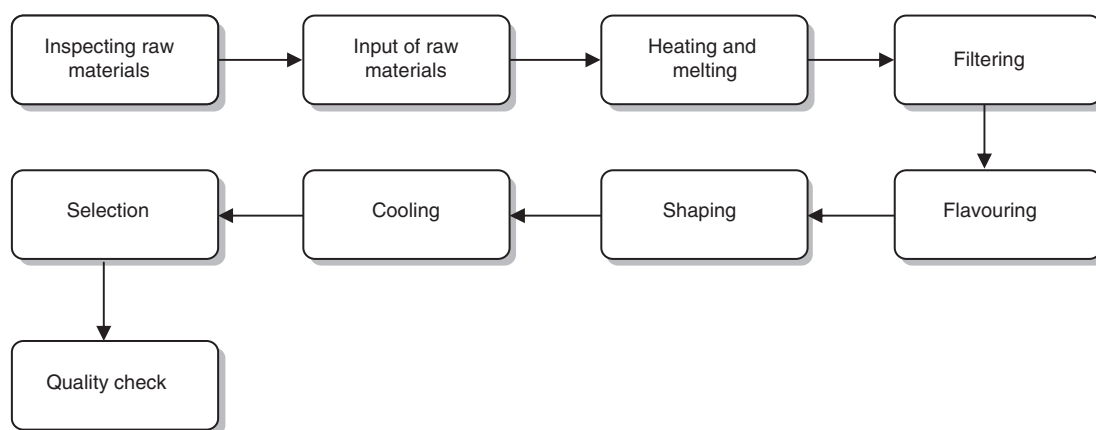
Raw materials

Production costs of the Group’s operations consist principally of raw material costs, packaging and other material costs, and labour and manufacturing overheads. The Group uses certain core raw materials in the production of its key categories of products. In the case of Candy Products, they are sugar and sugar syrup; in the case of Cake and Cookie Products, they are flour, eggs, sugar, butter oil and milk powder; and in the case of Sachima Products, they are flour, eggs, sugar syrup and sugar.

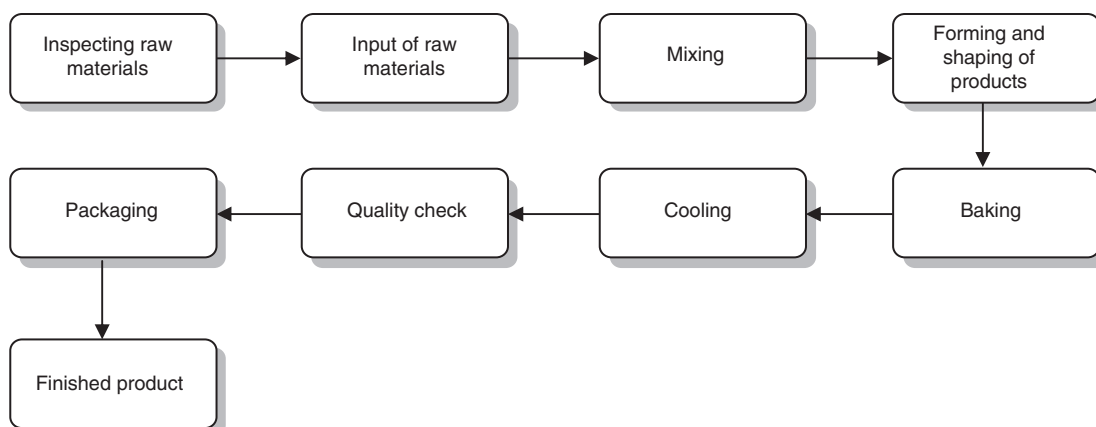
Production process

The following flow charts outline the main steps in the production process of each key category of products of the Group:

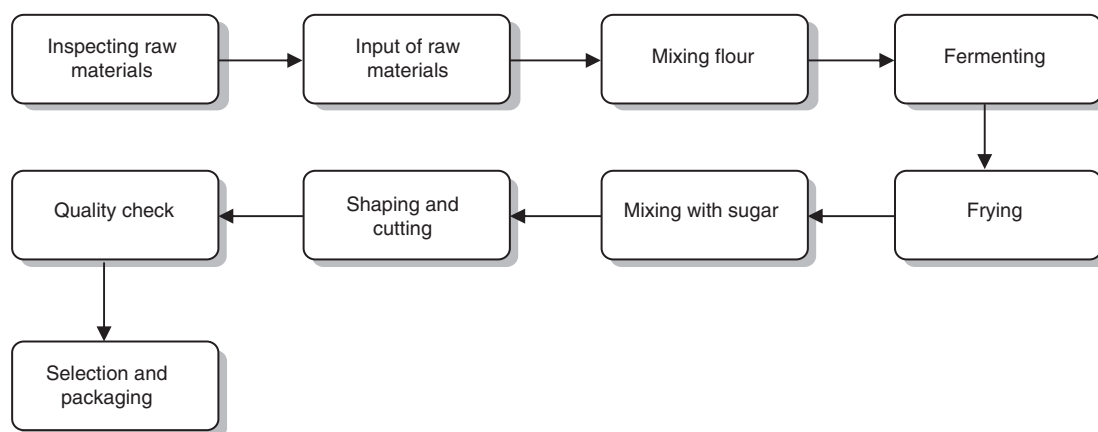
Flow chart for the production of Candy Products



Flow chart for the production of Cake and Cookie Products



Flow chart for the production of Sachima Products



PRODUCTION FACILITIES AND CAPACITY

Production facilities

As of the Latest Practicable Date, the Group's production facilities were located in Dongguan.

As of 30 June 2006, the Group had 120 production lines. The Group utilises modern equipment imported from countries such as Germany and Japan at its production facilities. The production lines could be adapted to produce a wide range of products by making appropriate adjustments. The Group's production capabilities allow the Group to produce products with consistent taste and texture, as well as to have the capacity to produce new products in a timely manner, in order to meet changing consumer demand.

Production volume

The following table shows the aggregate production volumes (measured in tonnes per financial year) (rounded down to the nearest thousand) of the Group in FY 2004, FY 2005 and FY 2006:

Aggregate production volumes of the Group's products in FY 2004, FY 2005 and FY 2006

	Aggregate production volumes (measured in tonnes)			
	Candy Products	Cake and Cookie Products	Sachima Products	Total
FY 2004	53,000	23,000	25,000	101,000
FY 2005	59,000	27,000	30,000	117,000*
FY 2006	58,000	30,000	36,000	124,000

Notes

* The numbers do not add up due to rounding differences.

Productive capacity and utilisation

Productive capacity of the production lines depends on the state of the technology of the equipment and the production processes employed. As of 30 June 2006, the maximum productive capacity of the Group's 120 production lines was 176,000 tonnes per annum (rounded down to the nearest thousand) calculated based on 21-hour operation a day and 251 days a year (with allowances for normal maintenance, operational down-time, Sundays and public holidays).

The Group's productive capacity is planned based on the historical and forecasted production demand during the Production Peak Season. Accordingly, the Group produces most of its products during the Production Peak Season and shuts down the surplus production lines, when necessary, during the non-Production Peak Season. Major maintenance and repair work is carried out during the shut down period. The table below shows the maximum productive capacity, annualised utilisation rates and the utilisation rates during the Production Peak Season of the Group's production facilities for FY 2004, FY 2005 and FY 2006.

	Maximum productive capacity (measured in tonnes per financial year)	Utilisation rate (%) during the Production Peak Season	Annualised utilisation rate (%)
FY 2004	156,000	78.5*	65.0*
FY 2005	168,000	88.7*	69.7*
FY 2006	176,000	90.4*	71.8*

Notes:

- (1) The maximum productive capacity is calculated based on 21-hour operation a day and 251 days a year (with allowances for normal maintenance, operational down-time, Sundays and public holidays). The maximum productive capacities illustrated in the table above have been rounded down to the nearest thousand. Actual productive capacity may vary according to product mix.
- (2) Utilisation rates are calculated by expressing the tonnage of products produced as a percentage of the maximum productive capacity and are calculated based on the actual numbers instead of the rounded numbers in the table above.
- (3) The numbers marked with * have been rounded down to one decimal place.

New production facilities

The Group is constructing a new production facility in Sichuan and considering the suitability of Henan as a location to set up a new production facility. Please see "Business—Future Plans" of this Prospectus.

Upgrading and expanding its existing production facilities

The Group is planning to expand its production facilities in Dongguan. Please see "Business – Future Plans" of this Prospectus.

Electricity and water supply

The Group requires electricity and water to manufacture its products. There were no major stoppages of production caused by shortage in electricity or water in the Group's three most recent completed financial years (i.e. FY 2004, FY 2005 and FY 2006). The Group maintains a small back-up electricity supply at its production facilities in Dongguan (which is not capable of providing sufficient electric power if a shortage occurs) and has no back up water supply. Please see the risk factor "The Group may face shortage in the supply of electricity or water" in "Risk Factors" of this Prospectus.

QUALITY CONTROL

The Directors believe that quality of the Group's products is a factor in the success of the Group. As of 30 June 2006, the Group maintained its own laboratory and employed more than 50 employees to carry out quality control. Quality control starts from the receipt of raw materials and continues at critical junctures of the manufacturing process. A quality check is conducted on the products before they are packaged. The Group was accredited with the internationally recognised ISO 9001-2000 certificate for its quality management system in 2002. In addition, it was awarded the HACCP certificate in 2004. See also 产品质量国家免检 (Product Exemption from Quality Surveillance Inspection) in "Business—Major Awards and Certifications" of this Prospectus.

The Group has dedicated a specialised team to handle consumer complaints and feedback.

MAJOR AWARDS AND CERTIFICATIONS

The table below lists the major awards and certifications that the Group has received since 2001:

Date of Receipt of Award	Details of Award and Recognition	Awarding Authority
September 2006	中国名牌产品 (China Top Brand (for biscuits of "Hsu Fu Chi" brand))	国家质量监督检验检疫总局 (General Administration of Quality Supervision, Inspection and Quarantine of PRC)

Date of Receipt of Award	Details of Award and Recognition	Awarding Authority
May 2006	高新技术企业 (High and New Technology Enterprise)	广东省科学技术厅 (Science and Technology Bureau of Guangdong)
April 2006	中国食品工业百强企业 (Hundred Best Food Industry Corporation in China for year 2005)	经国家统计局工业交通统计司 (Industry and Communication Statistic Department of National Bureau of Statistics of China) 中国食品工业协会 (China Food Industry Association)
March 2006	Top selling brand of candies for the 8 th consecutive year (from 1998 to 2005)	中国行业企业信息发布中心 (China Industrial Information Issuing Center)
September 2005	广东省名牌产品 (沙琪玛) (Top Brand in Guangdong Province) (for Sachima)	广东省质量技术监督局 (Guangdong Provincial Bureau of Quality and Technical Supervision)
March 2005	中国消费者 (用户) 十大满意品牌 (China's Consumers' Ten Most Satisfied Brand)	人民日报社市场信息中心 (Market Information Centre People's Daily)
September 2004	产品质量免检 (Product Exemption from Quality Surveillance Inspection) (for candies)	国家质量监督检验检疫总局 (General Administration of Quality Supervision, Inspection and Quarantine of PRC)
September 2004	中国名牌产品 (China Top Brand (for candies of "Hsu Fu Chi" brand))	国家质量监督检验检疫总局 (General Administration of Quality Supervision, Inspection and Quarantine of PRC)
February 2004	中国食品市场产品质量用户满意最喜爱第一品牌 (Consumers' first satisfied favourite brand in terms of quality in PRC food industry)	人民日报社市场信息中心 (Market Information Centre People's Daily)
January 2003	广东省著名商标 (Guangdong Province's Top Brand)	广东省工商行政管理局 (Guangdong Provincial Administration of Industry and Commerce)
July 2002	“双优”企业奖 (“Double Best” Corporation Award for year 2001)	中国外商投资企业协会 (China's FIE Association)
October 2001	国家食品工业重点企业 (Key Enterprise by the National Food Industry)	中国食品工业协会 (China Food Industry Association)

INVENTORY MANAGEMENT

The Group's inventory control system requires close co-ordination among its sales and marketing, raw material procurement, manufacturing, storage and transportation units.

Raw materials

The Group's procurement of raw materials is based on its anticipated production schedules. It is the general practice of the Group to keep inventory at a level sufficient to meet six days' to 20 days' production requirements during the Production Peak Season and three days' to seven days' production requirements during the rest of the year, depending on the type of raw material.

The Group utilises the ERP system to monitor its raw material inventory in order to enable it to replenish supplies on a timely basis.

The raw materials required for production are purchased in bulk by the purchasing department of the Group. Different raw materials have different purchasing cycles. The purchasing department of the Group enters into purchasing contracts with its suppliers taking into account the purchasing cycle, the shelf life, the seasonality and the anticipated change in the market price of each raw material.

Finished products

Finished products are delivered directly to customers from the Group's production facilities in Dongguan or indirectly through the Group's regional distribution centres (located in Sichuan, Dongguan and Shanghai). The Group uses third party carriers to transport the finished products to customers. The Group has warehousing facilities of varying capacities at its sales offices. The average shelf life of the Group's products varies from six months to 24 months, depending on the type of product. Accordingly, timely delivery of finished products in sufficient volume is required in order to maintain the quality of the Group's products and the sales volume of such products, especially during the Sales Peak Season. By using logistical and warehousing arrangements to position the finished products nearer the customers, the transportation time required is shorter than if the products had been shipped to the customers directly from Dongguan, improving efficiency of delivery and responsiveness to customers' needs. The Group has adopted an ERP system to monitor its inventory and sales volume.

In its three most recent completed financial years (i.e. FY 2004, FY 2005 and FY 2006), the Group did not encounter any significant obsolescence of inventory because most of its products were sold before their expiry dates. For slower moving products, the Group may offer price reductions to increase sales.

SEASONALITY

The Group's sales generally peak during the Sales Peak Season and its production generally peaks during the Production Peak Season.

Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Results of Operations and Financial Condition—Seasonality" and "Business—Production Facilities and Capacity—Productive capacity and utilisation" of this Prospectus for the effect of seasonality on the Group.

PROPERTIES

Property interests owned by the Group in the PRC

Land use rights

The particulars of the land of Factory No. 3 on which the Group has land use rights as of 30 June 2006 are set out below:

Location	Certificate of State-owned Land Use Right No.	Tenure	Gross Area (sq.m.)	Use of Property
Kengweiling Area, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	147 of 2004	Till February 2054	14,600 ⁽²⁾	Industrial use
Kengweiling Area, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	148 of 2004	Till February 2054	14,900 ⁽²⁾	Industrial use
Yinzhu Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	149 of 2004 ⁽¹⁾	Till March 2054	28,800 ⁽²⁾	Industrial use

<u>Location</u>	<u>Certificate of State-owned Land Use Right No.</u>	<u>Tenure</u>	<u>Gross Area (sq.m.)</u>	<u>Use of Property</u>
Third Ring Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	150 of 2004	Till February 2054	16,900 ⁽²⁾	Industrial use
Zhouwu Village Area, Dongcheng District, Dongguan, Guangdong, PRC	319 of 2004	Till March 2054	9,700 ⁽²⁾	Industrial use

Notes:

- (1) The Group has agreed to mortgage this property to the Industrial and Commercial Bank of China for the purpose of securing bank loans and the Group is in the process of registering this mortgage. The Group's existing bank loans from the Industrial and Commercial Bank of China have been granted on an unsecured basis and are therefore not secured by this mortgage.
- (2) These numbers have been rounded down to the nearest hundred.

The particulars of the land of the General Factory on which the Group has land use rights as of the Latest Practicable Date are set out below:

<u>Location</u>	<u>Certificate of State-owned Land Use Right No.</u>	<u>Tenure</u>	<u>Gross Area (sq.m.)</u>	<u>Use of Property</u>
Sangyuan Village, Zhouwu Community, Dongcheng District, Dongguan, Guangdong, PRC	580 of 2006	Till May 2056	150,900 ⁽¹⁾	Industrial use

Notes:

- (1) This number has been rounded down to the nearest hundred.

Currently, the Group is in the process of obtaining the Certificates of Real Estate Ownership in respect of certain buildings on the land where the General Factory is located and has commenced discussions with the relevant authorities. There is no assurance that the Group can or will obtain these certificates in respect of these buildings located on the land of the General Factory (see "Risk Factors—The Group does not possess certain Certificates of Real Estate Ownership and Certificates of Land Use Right in respect of certain buildings and land used by the Group" of this Prospectus.)

Buildings

The particulars of the buildings owned by the Group at Factory No. 3 as of 30 June 2006 are set out below:

<u>Location</u>	<u>Certificate of Real Estate Ownership No.</u>	<u>Tenure</u>	<u>Gross Area (sq.m.)</u>	<u>Use of Property</u>
Yinzhu Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C1888534 ⁽¹⁾	Till March 2054	6,600 ⁽²⁾	Industrial use
Yinzhu Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C1888535 ⁽¹⁾	Till March 2054	6,100 ⁽²⁾	Industrial use
Yinzhu Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C1888537 ⁽¹⁾	Till March 2054	3,100 ⁽²⁾	Industrial use

<u>Location</u>	<u>Certificate of Real Estate Ownership No.</u>	<u>Tenure</u>	<u>Gross Area (sq.m.)</u>	<u>Use of Property</u>
Yinzhu Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C1888538 ⁽¹⁾	Till March 2054	3,000 ⁽²⁾	Industrial use
Yinzhu Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C1888539 ⁽¹⁾	Till March 2054	18,400 ⁽²⁾	Industrial use
Yinzhu Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C1888540 ⁽¹⁾	Till March 2054	8,100 ⁽²⁾	Industrial use
Industrial Zone, Zhouwu Administrative District, Fucheng District, Dongguan, Guangdong, PRC	0384251	N/A	5,900 ⁽²⁾	N/A
The Third Ring Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C4260769	Till February 2054	5,900 ⁽²⁾	Industrial use
The Third Ring Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C4260770	Till February, 2054	9,100 ⁽²⁾	Industrial use
Kengweiling Area, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C4260800	Till February 2054	3,900 ⁽²⁾	Industrial use
The Third Ring Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C4269401	Till February 2054	4,400 ⁽²⁾	Industrial use
Kengweiling Area, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C4269403	Till February 2054	700 ⁽²⁾	Industrial use
Kengweiling Area, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C4269405	Till February 2054	2,100 ⁽²⁾	Industrial use

<u>Location</u>	<u>Certificate of Real Estate Ownership No.</u>	<u>Tenure</u>	<u>Gross Area (sq.m.)</u>	<u>Use of Property</u>
Kengweiling Area, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C4269406	Till February 2054	11,400 ⁽²⁾	Industrial use

Notes:

- (1) The Group has mortgaged these properties to the Industrial and Commercial Bank of China for the purpose of securing bank loans. The Group's existing bank loans from the Industrial and Commercial Bank of China have been granted on an unsecured basis and are therefore not secured by these mortgages.
- (2) These numbers have been rounded down to the nearest hundred.

The Group has mortgaged the property located at Industrial District, Zhouwu Administrative District, Fucheng District, Dongguan, Guangdong, PRC (Certificate of Real Estate Ownership No. 0384251) to the Industrial and Commercial Bank of China for the purpose of securing bank loans. The Certificate of Real Estate Ownership of this building states Dongguan Hsu Fu Chi as the owner. However, it is built on a piece of land, the land use right of which belongs to a different company, namely Dongguan Hsu Chi. Under the current PRC laws and regulations, the title over a building shall be registered under the name of the same entity that holds the land use right of the land on which the building is built. However, since Dongguan Hsu Fu Chi and Dongguan Hsu Chi are both subsidiaries of Hsu Fu Chi Holdings, the discrepancy over the ownership of this building should not adversely affect the interests of the Group.

Material property interests leased by the Group in the PRC

The following leased properties are considered material by the Group.

The material property interests leased by the Group at Factory No. 1 are as set out below:

<u>Location</u>	<u>Tenure</u>	<u>Gross Area (sq.m.)</u>	<u>Use of Property</u>	<u>Lessor</u>
Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	Till 31 August 2009	12,000 ⁽¹⁾	Dormitory, warehouse	Zhouwu Administrative District, Dongcheng, Dongguan, Guangdong, PRC
Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	Till 31 August 2009	9,800 ⁽¹⁾	Dormitory, factory, office, warehouse,	Zhouwu Administrative District, Dongcheng, Dongguan, Guangdong, PRC
Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	Till 11 June 2055	400 ⁽¹⁾	Dormitory	Zhouwu Administrative District, Dongcheng, Dongguan, Guangdong, PRC
Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	Till 30 June 2052	200	Dormitory	Zhouwu Administrative District, Dongcheng, Dongguan, Guangdong, PRC

Location	Tenure	Gross Area (sq.m.)	Use of Property	Lessor
Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	Till 31 August 2009	200 ⁽¹⁾	Waste water pit	Zhouwu Administrative District, Dongcheng, Dongguan, Guangdong, PRC
Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	Till 31 August 2009	N/A	Dormitory	Zhouwu Administrative District, Dongcheng, Dongguan, Guangdong, PRC

Notes:

(1) These numbers have been rounded down to the nearest hundred.

Although the Group has occupied and used the land of Factory No.1 for 14 years, since the Certificate of Land Use Right and Certificate of Real Estate Ownership of the Lessor to the leased land and building have not been made available to the Group, it is not possible to ascertain whether the lease is valid under the PRC law. There is no assurance that the Group has a valid lease in respect of Factory No. 1. See “Risk Factors—The Group does not possess certain Certificate of Real Estate Ownership and Certificates of Land Use Right in respect of certain buildings and land used by the Group” of this Prospectus.

The material property interests leased by the Group at each of the Group’s Hefei, Hangzhou, Wuxi, Kunming, Nanjing and Shanghai sales offices are as set out below:

Location	Tenure	Gross Area (sq.m.)	Use of Property	Lessor
Zhangwa Road, Qilitang Township, Hefei, Anhui Province, PRC	Till December 2010	4,000	Warehouse	Hefei Gongjiao Group Kuaitong Warehousing & Transport Co. Ltd
Zhangwa Road, Qilitang Township, Hefei, Anhui Province, PRC	Till December 2006	1,200 ⁽¹⁾	Office	Hefei Hongrui Logistic Co. Ltd
Tianhe Road, Yuhang District, Hangzhou, Zhejiang, PRC	Till October 2010	3,300 ⁽¹⁾	Office, dormitory, warehouse	Bihai Printing Facilities Co. Ltd
Yongfeng Village, Fangqian Township, Wuxi, Jiangsu Province, PRC	Till June 2009	2,900 ⁽¹⁾	Warehouse	Wuxi City New District Fanqian Township Yongfeng Village Villager Committee
Datangzi B Area, Datang Residents’ Committee, Wuhua District, Kunming, Yunnan Province, PRC	Till October 2008	2,300 ⁽¹⁾	Office, dormitory, warehouse	Kunming Pangchuan Trading Co. Ltd
Ningnang Industrial Park, Yuhua District, Nanjing, Jiangsu Province, PRC	Till April 2010	2,700	Office, dormitory, warehouse	Nanjing Fengji Factory

<u>Location</u>	<u>Tenure</u>	<u>Gross Area (sq.m.)</u>	<u>Use of Property</u>	<u>Lessor</u>
Xinzhuan Industrial Park, Minhang District, Shanghai, PRC	Till March 2033	9,300 ⁽¹⁾	Office, warehouse	Shanghai Qing Chun Shi Ye Ltd

Notes:

(1) These numbers have been rounded down to the nearest hundred.

Currently, the land (located at Shichang Road, Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC), on which Factory No. 5 is built is occupied and used by the Group. The gross area of this piece of land is approximately 157,000 sq.m. (rounded down to the nearest thousand). However, the Group does not have the Certificate of Land Use Right or Certificate of Real Estate Ownership for this piece of land. According to the PRC laws and regulations on administration of state-owned land, the Certificate of Land Use Right and the Certificate of Real Estate Ownership are the only legal evidence of land use right and real estate right. The Group has submitted an application for the Certificate of Planning Permit of Land for Construction for Factory No. 5 in August 2006. According to the local land administrative authority, it is expected that the local land administrative authority will grant the Certificate of Land Use Right by Q3 of FY 2007.

In Liaoning, the Group has obtained the Certificate of Construction Land Permit and the Certificate of Construction Project Planning for construction of the regional logistics centre (located at Xingcheng Road, Shenyang Huishan Agricultural High and New Technology Development Zone, Shenyang, Liaoning Province). The Group is in the process of obtaining the Certificate of Land Use Right for the regional logistics centre and has commenced discussions with the relevant authorities. The gross area of this piece of land is approximately 10,000 sq.m..

In Sichuan, the Group has incorporated Chengdu Hsu Chi to carry out production activity in Sichuan and has begun the construction of the production and logistics base (located at Chengdu Economy and Technology Development Zone), with the construction for warehouse, office buildings and dormitory of the base completed. The Group has obtained the Certificate of Planning Permit of Land for Construction for part of the land required for the production and logistics base and has obtained the Certificate of Construction Project Planning and the Certificate of Constructing Permit for the construction of warehouse, office buildings and dormitory. In addition, the Group is in the process of obtaining the Certificate of Land Use Right and Certificates of Real Estate Ownership for completed buildings of the production and logistics base and has commenced discussions with the relevant authorities. The gross area of this piece of land is approximately 43,000 sq.m. (rounded down to the nearest thousand).

There is no assurance that the Group can or will obtain the relevant certificates in respect of Factory No. 5 and the properties in Liaoning and Sichuan, as described above (see “Risk Factors - The Group does not possess certain Certificates of Real Estate Ownership Certificates and Certificates of Land Use Right in respect of certain buildings and land owned by the Group” of this Prospectus).

In FY2006, the production at General Factory, Factory No. 1, Factory No. 3 and Factory No. 5 accounted for approximately 57%, 7%, 32% and 4% respectively of the Group’s total production volume. There was no production in the regional logistics centre in Liaoning and the production and logistics base in Sichuan in FY2006.

For the General Factory, based on the legal opinion from Jingtian & Gongcheng, the Company’s PRC legal counsel, as long as the Group maintains the relevant land use right, the Group will not be required to evacuate from the land of the General Factory. During the process of obtaining the Certificate of Real Estate Ownership, the Group may be asked by the authorities to conduct modifications to the buildings in order to comply with the city plan and certain production lines may be affected. According to the Group, in such an event, the Group may lease alternative factory space to house the affected production lines temporarily in order to continue with its production.

For Factory No. 5, based on the legal opinion from Jingtian & Gongcheng, the Company’s PRC legal counsel, in the event that the Group is unable to obtain the Certificate of Land Use Right and the government grants the land use rights to another company and the said company obtains the relevant certificate for land use right, it is possible for the Group to be asked to evacuate the land of Factory No. 5 by the said company by way of a civil claim. The Group may lose its investment on the land of Factory No. 5. According to the Group, in such an event, the Group may lease alternative factory space to house the affected production lines temporarily in order to continue with its production.

PRODUCT DEVELOPMENT

The Group revises and updates its product development plan on an annual basis. After the Sales Peak Season, the Group embarks on a product development plan for its products with the view towards increasing sales for the period leading up to and including the next Sales Peak Season. The first phase of this plan involves gathering market information, collating samples and identifying consumer trends. Market information is gathered outside of the PRC, through the management team attending trade shows overseas, to obtain information on latest market trends and product innovation. In the second phase, the Group analyses its products in terms of their sales performance based on the market information gathered in the first phase. The product development team experiments with new confectionery products by refining the recipes, packaging and specifications of existing products and liaises with the production team on the feasibility and ease of manufacturing the new products. In the last phase of the Group’s product development plan, the Group will acquire, upgrade or improve its production facilities to manufacture the new products and will discontinue the production of products which are not performing well.

The Group’s product development team focuses on developing new confectionery products with improved or different taste, texture and eating sensation and conducts experiments to create different flavours for a product type to increase the variety of the Group’s products.

The Group has observed that consumers in the PRC generally prefer a variety of products. In addition to creating new products, the Group also focuses on the sizing, shapes, packaging and branding of its products in order to continually refresh its product offerings. With this in mind, the Group’s product development team examines the sizes, shapes and packaging of new as well as existing products and the appropriate branding.

The product development team has access to internal and external resources that support its work. Within the Group, the Group’s sales force and sales network provide feedback from consumers. On the production side, given the wide range of confectionery products that the Group manufactures, it is familiar with the manufacturing processes for many types of confectionery products. The Group uses this manufacturing know-how to work out the manufacturing processes involved in the manufacture of new confectionery products. In terms of external resources, the Group has from time to time obtained data on the constituent ingredients of generic confectionery products from suppliers in the food industry and academic institutions.

By combining the efforts of the product development team, the sales team and the production team, the Group has managed to introduce a large number of new confectionery products. In FY 2006 alone, the Group

introduced more than 70 new confectionery products and discontinued 30 products. As of the Latest Practicable Date, the Group has more than 400 products in the market. Product development expenses amounted to RMB6.2 million, RMB6.0 million and RMB9.5 million in each of FY 2004, FY 2005 and FY 2006 respectively. This amounted to 0.43%, 0.33% and 0.46% of the Group's revenue in each of FY 2004, FY 2005 and FY 2006 respectively.







INTELLECTUAL PROPERTY



The primary trademarks of the Group are “龙形商标” (Dragon Logo) and “徐福记” (Hsu Fu Chi) and the main secondary trademarks of the Group are “DoDo”, “Jofukuki”, “Chaobii”, “瓦格” (Wage), “甘口” (Ganko) and “磨堡” (Mo Bao). Some of these trademarks are registered as trademarks in the PRC and in certain other countries. Please see the trademarks table for details below. The major patents of the Group are the packaging designs of 酥心糖 (peanut crisp candy), 草莓卷心酥 (strawberry crisp), 松软蛋酥沙琪玛 (soft egg crisp Sachima), 蛋黄沙琪玛 (egg yolk Sachima), 特浓鲜乳球 (concentrated milk ball), 法式薄饼 (French wafer cookie) and 磨堡蛋糕 (Mo Bao Cake). These designs are registered as patents in the PRC. The Group's current policy is to take legal action, to the extent practicable, against any known material infringement of its trademarks, in order to protect its brand image. In its three most recent completed financial years, the Group has not experienced any material infringement of its trademarks that led to the expenditure by the Group of significant resources or led to an award of material damages in favour of the Group.

The Group is, and has been, subject to queries and fines (which are not significant in monetary amount) by the local government authorities regarding certain non-compliance with intellectual property laws. Such non-compliance have not had and are not expected to have a material adverse impact on the Group's business or operations. See “Risk Factors—The Group may be exposed to intellectual property infringement or similar claims” of this Prospectus.

Trademarks

As of 30 June 2006, the Group had 39 registered trademarks and had filed applications for 40 trademarks to be registered. Details of the Group's major trademarks that are registered in the PRC as of 30 June 2006 are as follows:



Trademarks	Class	Registration Number	Status	Expiry date
1. 龙形商标 (Dragon Logo)* 	30	3287031	Owned by Dongguan Hsu Chi	20 October 2013
2. 徐福记 (Hsu Fu Chi) 	30	1247144	Owned by Dongguan Hsu Chi	13 February 2009
3. DoDo 	30	975306	Owned by Dongguan Hsu Chi	6 April 2007
4. JOFUKUKI 	30	1181049	Owned by Dongguan Hsu Chi	6 June 2008
5. Chaobii 	30	3513137	Owned by Dongguan Hsu Chi	13 September 2014
6. 瓦格 (Wage) 	30	1959458	Owned by Dongguan Hsu Chi	13 October 2012




<u>Trademarks</u>	<u>Class</u>	<u>Registration Number</u>	<u>Status</u>	<u>Expiry date</u>
7. 甘口 (Ganko)	30	3111453	Owned by Dongguan Hsu Chi	6 May 2013
				
8. 磨堡 (Mo Bao)	30	3726444	Owned by Dongguan Hsu Chi	27 April 2015
				

* This trademark has also been registered by the Group in certain other countries.

Patents

As of 30 June 2006, the Group had 18 registered patents. Details of the Group's major patents as of 30 June 2006 are as follows:

<u>Patent Description</u>	<u>Patent Number</u>	<u>Status</u>	<u>Expiry date</u>
1. Packaging paper for 酥心糖 (peanut crisp candy)	ZL02358411.4	Owned by Dongguan Hsu Chi	18 July 2012
			
2. Packaging paper for 松软蛋酥沙琪玛 (soft egg crisp Sachima)	ZL99329290.9	Owned by Dongguan Hsu Chi	6 April 2009
			
3. Packaging paper for 蛋黄沙琪玛 (egg yolk Sachima)	ZL02365103.2	Owned by Dongguan Hsu Chi	21 November 2012
			
4. Packaging paper for 特浓鲜乳球 (concentrated milk ball)	ZL00321874.0	Owned by Dongguan Hsu Chi	8 May 2010
			

	<u>Patent Description</u>	<u>Patent Number</u>	<u>Status</u>	<u>Expiry date</u>
5.	Packaging paper for 草莓卷心酥 (strawberry crisp) 	ZL00347012.1	Owned by Dongguan Hsu Chi	19 December 2010
6.	Packaging paper for 法式薄饼 (French wafer cookie) 	ZL00347009.1	Owned by Dongguan Hsu Chi	19 December 2010
7.	Packaging paper for 磨堡蛋糕 (Mobao cake) 	ZL200530049761.8	Owned by Dongguan Hsu Chi	6 January 2015

INSURANCE

As of the Latest Practicable Date, the Group maintained the following material insurance policies in respect of the following (subject to exceptions and exclusions and the conditions of the respective policy):-

- social insurance for employees;
- insurance against loss, destruction or damage to the Group's buildings, production facilities and machineries caused by accidents; and
- vehicular insurance in respect of the Group's vehicles.

The Group does not maintain any insurance in the PRC for product liabilities attributed to the manufacturing or sale of its products. The Group is of the view that, after taking into account the limited types of insurance coverage that are currently available in the PRC and its knowledge of the confectionery industry in the PRC, its insurance policies are in line with the general practice in the industry.

STAFF

As of 30 June 2006, the Group had 12,448 permanent employees. The table below provides a breakdown of the staff strength as of the dates indicated below. Substantially all of the Group's employees were based in the PRC for each of FY 2004, FY 2005 and FY 2006.

<u>Department</u>	<u>As of 30 June 2004</u>	<u>As of 30 June 2005</u>	<u>As of 30 June 2006</u>
Managers and supervisors	170	269	386
Marketing and sales	3,454	3,965	4,269
Production	3,012	4,065	5,592
Product development	54	79	108
Others	1,527	1,836	2,093
Total	<u>8,217</u>	<u>10,214</u>	<u>12,448</u>

The number of permanent employees is not subject to any significant seasonal fluctuation. The increase over the years in the number of permanent employees is due to the expansion of the Group's business, such as the increase in the number of sales offices. More than half of the Group's permanent employees are based in the

production facilities in Dongguan. As of 30 June 2006, approximately 1,050 of the Group's permanent employees had tertiary education.

The Group employs a significant number of additional temporary employees, most of whom are employed during the Production Peak Season and Sales Peak Season, due to the increased demand for its candies and chocolates during the Chinese New Year. In FY 2006, the Group employed in the region of 3,000 temporary production employees, on a monthly average basis, during the Production Peak Season and in the region of 1,000 temporary promoters, on a monthly average basis, during the peak months in the Sales Peak Season.

The Group has a generally good relationship with its labour unions and employees.

GOVERNMENT REGULATIONS IN THE PRC

Regulations governing the products

The legal framework for food production and distribution is laid down by the national laws and regulations of the PRC, as well as regional laws, regulations and measures promulgated by the provincial or municipal authorities at which a food production factory is situated. The principal laws and regulations applicable to the Group's operation and products in the PRC include the following:—

- (i) 中华人民共和国食品卫生法 (the Law on Food Hygiene of PRC) (the “Food Hygiene Law”) promulgated by 全国人民代表大会常务委员会 (the Standing Committee of the National People's Congress) on 30 October 1995;
- (ii) 中华人民共和国进出口商品检验法 (the Law of the PRC on Import and Export Commodity Inspection) (the “Commodity Inspection Law”) promulgated on 21 February 1989 and amended on 28 April 2002 by 全国人民代表大会常务委员会 (the Standing Committee of the National People's Congress);
- (iii) 中华人民共和国进出口商品检验法实施条例 (the Regulations for the Implementation of the Law of the PRC on Import and Export Commodity Inspection) promulgated by the 国务院 (State Council) on 31 August 2005;
- (iv) 中华人民共和国产品质量法 (the Products Quality Law of the PRC) (the “Products Quality Law”), promulgated on 22 February 1993 and amended on 8 July 2000 by 全国人民代表大会常务委员会 (the Standing Committee of the National People's Congress);
- (v) 出口食品生产企业卫生注册登记管理规定 (the Provisions on Administration of Sanitation Registration of Food Production Enterprises for Export) (the “Sanitation Registration Provisions”), issued by 国家质量监督检验检疫总局 (the AQSIQ) on 27 March 2002;
- (vi) 食品生产加工企业质量安全监督管理办法 (the Provisions on Supervision and Administration of Quality Safety of Food Production and Processing Enterprises) (the “Quality Safety Provisions”), issued by 国家质量监督检验检疫总局 (the AQSIQ) on 18 July 2003;
- (vii) 中华人民共和国出口食品卫生管理办法 (试行) (the Provisional Rules on Administration of Export Food Hygiene) (the “Export Food Rules”) issued by the State Administration of Import and Export Commodity Inspection of the PRC (now known as 国家质量监督检验检疫总局 (the AQSIQ)) and 卫生部 (the State Administration for Hygiene) on 20 October 1984;
- (viii) 进出口食品标签管理办法 (the Rules on the Administration of Labelling of Import and Export Foods) (the “Food Labelling Rules”) issued by 国家出入境检验检疫局 (the State Administration for the Inspection of Import & Export Commodity) (“SAIIEC”) on 15 February 2000;
- (ix) 中华人民共和国环境保护法 (the Law of PRC on Environmental Protection) promulgated by 全国人民代表大会常务委员会 (the Standing Committee of the National People's Congress) on 26 December 1989.

中华人民共和国食品卫生法 (the Food Hygiene Law) is administered by the state and local administration for hygiene and sets out the hygienic requirements for carrying on food production in the PRC. 中华人民共和国进出口商品检验法 (the Commodity Inspection Law) and its 中华人民共和国进出口商品检验法实施条例 (Implementation Regulations) provide the inspection of import and export commodities to ensure the quality of such commodities. Both 中华人民共和国出口食品卫生管理办法 (试行) (the Export Food Rules) and 进出口食品标签管理办法 (the Food Labelling Rules) are administered by 国家出入境检验检疫局 (SAIIEC) for the purpose of, in the case of the former rules, regulating the quality of food products manufactured in the PRC for export and, in the case of the

latter rules, regulating the labelling information set out in the package of import and export food products. 中华人民共和国产品质量法 (the Products Quality Law) governs the quality of products including food products in respect of its supervision, duties and obligations of manufacturers and distributors, and damages. 出口食品生产企业卫生注册登记管理规定 (the Sanitation Registration Provisions) and 食品生产加工企业质量安全监督管理办法 (the Quality Safety Provisions) are both administered by 国家质量监督检验检疫总局 (the AQSIQ), stipulating in particular the requirements for sanitation registration of enterprises engaging in food production for export, and the activities of food production and processing for the purposes of sale within the territory of the PRC respectively. The 污染物排放规定 (Pollutants Discharge Rules) and the 环境保护条例 (Environmental Protection Rules) are administered by the local branch of the 市级环保局 (Environmental Protection Bureau) at the municipal level.

Certificates, permits and licences for the Group's production factories in the PRC

In order for a food production factory in the PRC to manufacture or distribute food products, the following certificates, permits and licences from the relevant governmental authorities are required to be obtained:—

- (i) 企业法人营业执照 (a business licence) issued by the relevant administrative bureau of industry and commerce with the appropriate business scope for carrying on food production;
- (ii) 外商投资企业税务登记证 (a tax registration certificate for foreign-invested enterprises) issued by the 地方税收征管部门 (local offices of state administration of taxation) and 地方税务局 (local taxation bureau) respectively;
- (iii) 外汇登记证 (a foreign exchange registration certificate) issued by the 地方外汇管理部门 (local administration of foreign exchange);
- (iv) 卫生许可证 (a hygiene permit) issued by 地方卫生主管部门 (local administration for hygiene) certifying that such factory is permitted to manufacture the types of food products specified in such permit;
- (v) 卫生注册证书 (a sanitation registration certificate) issued by the 国家认证认可监督管理委员会 (Certification and Accreditation Administration) of the PRC;
- (vi) 食品生产许可证 (a food production permit) issued by 国家质量监督检验检疫总局 (the AQSIQ);
- (vii) in the case of food products for export, 检疫卫生注册登记证 (a quarantine and hygiene registration certificate) issued by 国家出入境检验检疫局 (SAIEC) certifying that such factory has met the quarantine and hygiene standards for manufacturing of the types of food products for export as specified in such certificate; and
- (viii) 取水许可证 (a water assumption permit) issued by 水利局 (the local bureau of water resources).

The Group's certificates, permits or licences have not been withdrawn or suspended as a result of any infringement of any regulatory requirements during its three most recent completed financial years.

Regulations governing construction of new facilities

In accordance with the PRC laws and regulations on environmental protection, prior to commencing construction of the facilities, the Group is required to submit to the relevant environmental protection authorities a report on evaluation of impact of the construction project on the environment and obtain approval for such construction. After the construction is completed, the newly constructed facilities shall be subject to the checks on environmental protection facilities of the construction conducted by the relevant environmental protection authorities of the PRC. If the facilities do not pass such checks, the Group must take measures to improve the environmental protection facilities until the facilities pass such checks. The Group is currently in compliance with the applicable environmental protection laws and regulations in PRC.

The Group has obtained all relevant certificates, permits and licences (save for the certificates relating to real properties described in “Business—Properties” and “Risk Factors—Risks relating to the Group's business—The Group does not possess certain Certificates of Real Estate Ownership and Certificates of Land Use Right in respect of certain buildings and land used by the Group” of this Prospectus) that would materially affect the Group's business operations. The Group is in compliance with all relevant rules and regulations in the PRC that would materially affect the Group's business operations.

EXCHANGE CONTROLS

Substantially all of the operations of the Group are located in the PRC. In the PRC, the import or export of capital is required to be approved by the relevant foreign exchange administration authority. There are no governmental laws, decrees, regulations or other legislation in the PRC that may restrict the remittance of dividends to holders of the Shares who are not resident in the PRC. Please see “Appendix C—Summary of Relevant PRC Laws and Regulations” of this Prospectus for more details on the foreign exchange control system of the PRC.

MATERIAL LITIGATION

The Group has been involved in litigation from time to time in its ordinary course of business. Most of these litigation matters relate to the recovery of debts owed to the Group and no single claim by the Group has exceeded an amount equal to 5% of the net profits after tax of the Group for FY 2006. The Group is currently not involved in any litigation relating to food contamination.

As of the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any legal or arbitration proceedings, including those which are pending or known to be contemplated, which may have or have had in the last 12 months before the date of lodgment of this Prospectus, a material effect on the financial position or the profitability of the Company or of the Group.

COMPETITION

The PRC consumer market for confectionery products is highly competitive, characterised by a wide array of products and market segments. These products range from imported, premium products to generic, locally produced products and vary in quality. Consumers in the PRC, although numerous due to the population size of the PRC, do not form a homogenous class. Consumers of different age groups and socio-economic backgrounds have different tastes and product preferences. Within the same market segment, consumers’ taste buds may also differ due to differences in locations and climates in the PRC. In addition, consumer preferences may change in response to the changing seasons. Please see the risk factors “The Group faces intense competition” and “The Group’s business is subject to changes in consumer preferences and tastes” in “Risk Factors” of this Prospectus.

The sales, distribution and logistics channels in the PRC are evolving at different paces in different places. In the more easily accessible areas, such as coastal and hub areas, wide arrays of confectionery products are available. In contrast, the choice of products diminishes in the more remote areas, which are mostly in the inland provinces of the PRC.

The barriers to entry for this market are relatively low. The production know-how required to manufacture confectionery products in the PRC are not significant barriers of entry.

The PRC consumer market for confectionery products is growing rapidly, although the Directors believe that the growth is uneven—with growth generally higher in the regions with greater consumer purchasing power.

With its sales and distribution reach in the PRC, the Group seeks to use this platform to compete nationwide in the PRC. This requires the Group to produce and sell different types of products using its extensive sales network, well-recognised brand and a competitive pricing strategy, all of which, in the opinion of the Directors, are crucial for securing market share. Consequently, the Group’s products meet direct and indirect competition from a wide range of international, national and regional products, across most of the PRC. The Group competes with major players in its key product categories as listed below.

Candy Products	Cake and Cookie Products	Sachima Products
Perfetti Van Melle Confectionery (China) Co Ltd Cadbury (China) Food Co Effem Foods (Beijing) Co Ltd Wrigley Chewing Gum Co Ltd	Danone Group Dongguan Huajia Food Co Kraft Foods Inc	Fujian Dali Group Jing Yih Jen Food

The Group believes that the use of Specialty Counters to promote the sales of its products enables it to compete in the confectionery market in the PRC by providing a higher level of customer service. By stationing its own employees at Specialty Counters to promote the Group’s products, it is able to receive feedback directly from consumers, instead of relying primarily on television and newspaper advertising.

Please see “Risk Factors—The Group faces intense competition”; and “Risk Factors—The Group’s business may be adversely affected by imitation, counterfeit or similar products” of this Prospectus.

PROSPECTS AND TRENDS

The following discussions about the Group’s prospects and trends include forward-looking statements that involve risk and uncertainties. Actual results could differ materially from those that may be projected in these forward-looking statements. See “Special Note Regarding Forward Looking Statements” of this Prospectus.

The Directors are optimistic about the positioning of the Group’s confectionery products in the confectionery market in the PRC based on the following factors:

- Trend towards increasing consumption and quality products

The Directors believe that consumption of confectionery products is likely to continue to grow with the ongoing economic development in the PRC. In addition, the Directors anticipate that affluent consumers will demand better quality products and are expected to prefer purchasing well-branded confectionery products (despite their higher prices) regarded by them as quality or premium products. Although competition in this market segment is intense and intensifying, the Directors foresee growth opportunities for the Group’s products due to their market positioning established through branding, product quality and innovation and price strategy. In particular, the Group’s multi-product strategy makes it less vulnerable to changes in consumers’ preferences as well as positions the Group to anticipate and cater to such changes.

- Enhancing sales and distribution capabilities

The Group seeks to enhance its sales and distribution capabilities by increasing its direct control over sales and leveraging on the diverse sales channels through which its products are sold. Over the years, the Group has focused on building a sales and distribution network in the PRC. The Directors intend to continue expanding and enhancing this network to generate sales and determine pricing for its products.

The Group expects that the financial results for FY 2007 will continue to be influenced by the principal considerations that were discussed in the section “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Factors Affecting Results of Operations and Financial Condition” of this Prospectus, namely:

- China’s economic development
- Product development
- Seasonality
- Sales and marketing
- Product mix
- Cost of materials
- Production volume
- Preferential tax treatments

Additionally, the Group expects that its financial results for FY 2007 will be materially affected by the following factors:

- the expansion activities (as described in the section “Business—Future Plans” of this Prospectus) that the Group plans to undertake in FY 2007
- increase in marketing activities and sales offices, which is expected to generate more sales as well as result in higher expenses for the Group
- higher sales volume for Chinese New Year Candies, which is expected because more purchasing opportunities for consumers will be created by the longer Sales Peak Season in FY 2007 compared with FY 2006 (The Sales Peak Season in FY 2007 is expected to be longer than the Sales Peak Season in FY 2006 by 11 days.)
- increase in productive capacity of the Group (due to an expansion of production facilities), which is expected to lead to more products for sale as well as higher expenses for the Group

- increasing prices of raw and packaging materials, which are expected to increase the Group's cost of sales
- the likely increase in salaries
- higher effective tax rates

Save as disclosed in this Prospectus, the Group is not aware of any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on net sales or revenue, profitability, liquidity or capital resources, or that would cause financial information disclosed in this Prospectus to be not necessarily indicative of the future operating results or financial condition of the Group, in respect of FY 2007.

ORDER BOOK

The concept of the order book is not applicable to the Group's business of manufacturing its own branded products. The Group decides its production volume based on anticipated market demand and is not based on orders from customers.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Group's financial condition and results of operations for FY 2004, FY 2005 and FY 2006 is based on and should be read in conjunction with the "Audited Combined Financial Statements of Hsu Fu Chi International Limited for Years ended 30 June 2004, 2005 and 2006" and related notes thereto, which are included elsewhere in this Prospectus. The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards ("FRS"). The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. The Group's actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in "Special Note Regarding Forward Looking Statements" and "Risk Factors" of this Prospectus.

OVERVIEW

The Group markets a diverse range of its own manufactured confectionery products in the PRC. Its diverse product portfolio consists of three categories: Candy Products, Cake and Cookie Products and Sachima Products. All products are sold under the Group's primary brand "徐福记" (Hsu Fu Chi), as well as its secondary brands, such as "DoDo", "Chaobii" and "磨堡" (Mo Bao). As of the Latest Practicable Date, the Group manufactured all of its products in its production facilities in Dongguan, where its administrative headquarters and Sales Headquarters are located.

More than 95% of the Group's revenue in FY 2006 was derived from the sales of its own manufactured products in the PRC. The Group distributes its products to consumers through its customers and Specialty Counters. The Group's customers are operators of modern sales channels, such as hypermarkets, supermarkets and convenience stores; suppliers of Neighbourhood Shops; and distributors. As of the Latest Practicable Date, the Group's products were distributed to consumers in the PRC through more than 13,000 Retail Points of varying sizes. The Group's revenue has grown as it continued to distribute its products through different sales channels. See "Business—Sales and Distribution—Sales channels" of this Prospectus.

As of the Latest Practicable Date, the Group operated an extensive sales network consisting of more than 250 sales supervisors and more than 4,000 permanent staff members in 56 sales offices, which covered the sales, marketing and distribution of its products across most of the PRC. Sales and marketing information, such as market response to the Group's products, collected by the sales offices is relayed to the Sales Headquarters, which uses such information to help formulate the Group's sales and marketing plans. The Group operates warehouses and logistics centres in some areas but uses mainly third party carriers to distribute finished products to its customers.

The Group's revenue increased from RMB1,443.2 million in FY 2004 to RMB1,809.4 million in FY 2005 and RMB2,056.3 million in FY 2006. Its profit from operations decreased slightly from RMB197.9 million in FY 2004 to RMB191.5 million in FY 2005 and increased to RMB249.6 million in FY 2006.

BASIS OF PRESENTATION

In preparation for the listing of the Company, the Group undertook the Restructuring Exercise more specifically described in "Restructuring Exercise" of this Prospectus. Under the Restructuring Exercise, the Company acquired the entire issued share capital of Hsu Fu Chi Holdings from its shareholders and became the holding company of the subsidiaries comprising the Group. The audited combined financial statements have been prepared on a historical cost basis in accordance with FRS. On this basis, the Company has been treated as the holding company of Hsu Fu Chi Holdings for the years covered in the audited combined financial statements rather than from the date of its acquisition of Hsu Fu Chi Holdings.

FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

China's Economic Development

The Group derived more than 95% of its revenue in FY 2006 from sales in the PRC, and as of the Latest Practicable Date, all of its manufacturing operations were in the PRC. The Group's results of operations and prospects are therefore affected by the social and economic conditions in the PRC. Demand for confectionery

products depends on the lifestyle and the level of disposable income of consumers, which is intertwined with the growth of the PRC economy and the pace of its urbanisation process. Unfavourable national, regional or local economic factors could adversely affect consumer willingness to purchase the Group's products. See "Risk Factors—The Group is vulnerable to changes in the social, political and economic conditions of the PRC, which are subject to uncertainties" of this Prospectus.

Below is a summary of the principal macroeconomic factors that may have affected the Group's performance:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2001-2004 CAGR⁽¹⁾</u>
GDP (RMB in billions)	9,731	10,517	11,739	13,688	3.5%
GDP per capita (RMB)	7,651	8,214	9,111	10,561	3.3%
Disposable monthly income per capita (RMB)	9,226	10,178	11,094	12,358	10.2%

Quoted from the web site of the National Bureau of Statistics of the People's Republic of China, www.stats.gov.cn. Please see "General and Statutory Information—Sources" of this Prospectus for information regarding use of this source.

Notes:

(1) Compounded Annual Growth Rate.

Product Development

Due to the nature of the industry, the Group's operating results are susceptible to changes in consumer trends in taste preferences, eating habits and discretionary spending priorities, all of which can shift rapidly. Consumer trends are affected by many factors, including national, regional or local economic conditions, area demographics, competition, selling prices of products, shopping patterns and weather. The Group's success will depend, in part, on its ability to anticipate and respond to such changing consumer preferences as well as other factors affecting the confectionery industry, including new market entrants, innovative product variations, creative packaging concepts and demographic changes. To remain competitive, the Group maintains a diverse product line and constantly changes its product mix in response to the changing preferences of consumers in different market segments.

Seasonality

The Group's revenue is seasonal. The Chinese consider the consumption of sugar confectionery as indispensable during traditional festive occasions. Sales of the Group's products, especially Candy Products, are significantly stronger in the period before and during the Chinese New Year. Sales of Cake and Cookie Products and, to a lesser extent, Sachima Products are also stronger in the period before the Mid-autumn festival. The higher sales generated prior to a festive occasion are followed by a transitory period of lower sales immediately thereafter. Sales are also affected by climates and are typically lower during the warmer months.

In each of FY 2004, FY 2005 and FY 2006, seasonality had greater impact on the sales of Candy Products than on the sales of Cake and Cookie Products and Sachima Products, and peak sales of the Group were generally recorded during the Sales Peak Season. As a result, the Group concentrates its marketing efforts on Candy Products, especially Chinese New Year Candies, during this period and raises the productive capacities for these products shortly before this period. Further, the Group's sales performance and production cycle is largely in tandem with such demand cycle. See "Risk Factors—The Group faces fluctuating seasonal demand" of this Prospectus.

The following table sets forth the Group's unaudited revenue for the quarterly periods indicated. The quarterly data should be read in conjunction with the Audited Combined Financial Statements of Hsu Fu Chi International Limited for FY 2004, FY 2005 and FY 2006 and related notes included elsewhere in this Prospectus.

	FY 2004				FY 2005				FY 2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	(RMB in millions)											
Revenue⁽¹⁾												
Candy Products	79.2	315.2	261.2	91.6	97.5	290.8	458.4	77.2	104.1	402.0	390.5	106.5
Cake and Cookie Products	81.3	112.3	114.2	92.1	124.0	136.9	151.9	94.0	146.6	187.5	156.0	105.1
Sachima Products	58.6	73.1	81.8	82.6	78.4	100.2	108.7	91.5	104.9	128.4	120.8	103.9

Notes:

- (1) The Chinese New Year and the Mid-autumn festival generally fall in Q3 and Q1 of each fiscal year, respectively. As such, the higher sales attributable to the two festivals are recorded in Q2 and Q3 in the case of the Chinese New Year and in Q1 in the case of the Mid-autumn festival.

Sales and Marketing

The Group's growth prospects depend on its ability to strengthen its market coverage and raise consumer awareness of its products through successful sales and marketing. See "Risk Factors—The Group depends on its Sales Headquarters and sales offices to generate sales" of this Prospectus. Sales and marketing efforts of the Group come in different forms, such as on-site presentations at customers' premises, special promotions at Retail Points, consumer-oriented sales communications at Specialty Counters and media advertising. They are handled primarily by the Group's sales offices under the supervision of the Sales Headquarters. As of the Latest Practicable Date, the Group operated 56 sales offices and more than 1,800 Specialty Counters, with plans to expand to more than 60 sales offices by the end of FY 2007.

It takes time for a new sales office or Specialty Counter to achieve the operating efficiencies and planned sales levels due to challenges typically associated with a new operation, including the need to adapt to the local consumer culture, to build up a significant customer base and to hire and train sufficient sales personnel. Further, the Sales Headquarters must devote greater resources to cope with the expanded sales network, including efforts to continue to maintain ongoing communications with the sales offices and Specialty Counters in order to tailor the Group's sales and marketing efforts to the changing consumer preferences in different market segments. As a result, the Group's net profit margin typically decreases shortly after the establishment of a new sales operation but the trend is reversed as the operation matures.

Product Mix

Product mix is among the primary factors that affect the Group's revenue and gross profit margin. Because different product categories have different average selling prices and gross profit margins, changes in the Group's product mix may have an adverse impact of its overall gross margins even during periods of increasing revenue. The table below sets forth, for the periods indicated, a breakdown of the Group's production volume, revenue, average selling price and gross profit margin by product category:

	FY 2004	FY 2005	FY 2006
Production volume⁽¹⁾ (tonnes)			
Candy Products	53,000	59,000	58,000
Cake and Cookie Products	23,000	27,000	30,000
Sachima Products	25,000	30,000	36,000
Revenue (RMB in millions)			
Candy Products	747.2	923.9	1,003.2
Cake and Cookie Products	399.9	506.8	595.2
Sachima Products	296.1	378.8	458.0
Average selling price⁽²⁾ (RMB in thousands)			
Candy Products	15.6	16.3	17.0
Cake and Cookie Products	18.2	18.8	19.0
Sachima Products	12.4	12.6	12.4
Gross profit margin			
Candy Products	43.2%	41.1%	42.5%
Cake and Cookie Products	44.0%	41.7%	40.4%
Sachima Products	26.6%	23.7%	25.3%

Notes:

- (1) Rounded down to the nearest thousand.
(2) Measured on a per tonne basis. Average selling price for a period is defined as revenue for the relevant period divided by sales volume for the same period.

The selling prices of the Group's products are determined mainly by consumer demand, which in turn is affected by the quality of individual products and the marketing efforts behind them. Cake and Cookie Products are generally designed, produced and marketed as premium products, with selling prices that are generally higher than similar products made by regional producers. From time to time, the Group lowers the selling prices of selected products in order to absorb excess capacity, liquidate excess inventories or gain market share. The Group seeks to maintain its gross profit margin by exerting more influence over the selling prices of its products through its sales offices. Gross profit margin is also affected by the costs of materials as described below. For instance, the gross profit margin of Cake and Cookie Products decreased from 44.0% in FY 2004 to 40.4% in FY 2006 primarily due to increases in the costs of materials. To offset the adverse impact of such increases on the gross profit margin, the Group has sought to raise the selling prices of various Cake and Cookie Products in a manner designed to minimise impact on their sale volumes.

Cost of Materials

The costs of raw materials represented 48.6%, 50.0% and 50.2% of the Group's cost of sales in FY 2004, FY 2005 and FY 2006, respectively, and the costs of packaging materials represented 21.3%, 22.3% and 22.1% of the Group's cost of sales in FY 2004, FY 2005 and FY 2006, respectively. Accordingly, the Group's profitability depends, in part, on its ability to anticipate and respond to fluctuations in raw material prices. See "Risk Factors—The Group is susceptible to fluctuations in raw material prices and supply" of this Prospectus. For example, the Group raised the selling prices of many of its products in FY 2005 to mitigate the effects of the rising costs of raw materials and packaging materials.

The Group procures most of the raw materials it needs from commodity markets on an adhoc basis, with the remainder from selected suppliers on a negotiated basis. The Group neither hedges its exposure to the fluctuations in commodity prices nor enters into any raw material supply contracts with a term of more than one year. Its operating results therefore are vulnerable to fluctuations in the market prices of raw materials. Market prices of raw materials vary according to many factors, including changes in supply and demand, inflation and changes in foreign exchange rates. For example, the prices of some of the raw materials used by the Group, including sugar, eggs and palm oil, varied significantly between FY 2004 and FY 2006. Going forward, should the Group decide to enter into any hedging transactions, prior to doing so, the Group will seek the approval of the Board on the policy for entering into such transactions and put in place adequate procedures, which will be reviewed and approved by the Audit Committee.

The Group procures most of the packaging materials it needs from domestic suppliers, with the remainder, typically the more special or high-quality ones, from overseas suppliers. Market prices of packaging materials are determined primarily by changes in supply and demand. For example, the growth in demand for packaging materials had resulted in price increases for some packaging materials, including printed wrapping paper and packaging film, from FY 2004 to FY 2006. The Group seeks to minimise the fluctuations in the cost of packaging materials by constructing its own packaging material manufacturing plant. See "Business—Future Plans" of this Prospectus.

Production Volume

Increased production volume generally has a positive impact on the Group's gross profit margin, to the extent that the enhanced efficiency outweighs any negative impact that the increased volume may have on selling prices. The enhanced efficiency is realised on two fronts. First, the Group is able to spread its fixed costs and labour costs over a larger volume of products manufactured, thereby decreasing up to a certain extent their unit production cost. Second, the Group has greater bargaining power when negotiating with suppliers and logistics service providers. The Group is in the process of enhancing its production capabilities. See "Business—Future Plans" of this Prospectus.

Preferential Tax Treatments

Substantially all of the Group's operations are based in the PRC. Based on the Income Tax Law of the PRC for Enterprises with Foreign Investment (the "Income Tax Law"), PRC subsidiaries of the Company, including Dongguan Hsu Chi, Dongguan Hsu Fu Chi and Dongguan Anco, each qualifies for a tax holiday during which they are entitled to an exemption from PRC Enterprise Income Tax ("EIT") for two years commencing from their first profit-making year of operation and a 50% relief from EIT for the following three years. As the subsidiaries are engaged in a manufacturing business established in a coastal economic zone (沿海经济开发区), they are subject to EIT at the reduced rate of 24%, compared with the standard rate of 33%. In addition to EIT, the subsidiaries are subject to local tax at the rate of 3%.

In the case of Dongguan Hsu Chi, the tax holiday for the entity expired on 30 December 2002. On 30 December 2001, Dongguan Hsu Chi was granted the Technologically Advanced Foreign Invested Enterprise

(技术先进型外商投资企业) status, as a result of which it was able to enjoy a reduced tax rate of 12% (reflecting an extension of its 50% relief from EIT under the tax holiday and an exemption from local tax) for three years beginning on 1 January 2003. On 30 May 2006, Dongguan Hsu Chi was granted the High and New Technology Enterprise (高新技术企业) status, as a result of which it was able to enjoy a reduced tax rate of 18% (comprising a reduced EIT rate of 15% and a local tax rate of 3%) for two years beginning on 1 January 2006. Accordingly, Dongguan Hsu Chi was subject to an income tax rate of 12% for FY 2004, FY 2005 and the first half of FY 2006 and an income tax rate of 18% for the second half of FY 2006.

In the case of Dongguan Hsu Fu Chi and Dongguan Anco, the tax holiday for both entities has expired. As they are engaged in a manufacturing business established in a coastal economic zone (沿海经济开放区), they are entitled to a reduced EIT rate of 24%. Accordingly, Dongguan Hsu Fu Chi and Dongguan Anco are subject to an income tax rate of 27% (comprising a reduced EIT rate of 24% and a local tax rate of 3%).

As a result of these tax preferences, the Group's effective tax rates for FY 2004, FY 2005 and FY 2006 were 12.4%, 12.2% and 12.6%, respectively. If the Group cannot secure other preferential tax treatments when the High and New Technology Enterprise status of Dongguan Hsu Chi expires on 31 December 2007, Dongguan Hsu Chi will be subject to an income tax rate of 27% (compared with the current rate of 18%) beginning on 1 January 2008, and the Group's effective tax rate will increase accordingly. See "Risk Factors—The Group faces increasing effective tax rate and may not be successful in obtaining tax incentives" of this Prospectus.

PRINCIPAL COMPONENTS OF THE INCOME STATEMENT

Revenue

Revenue represents the net invoiced value of goods sold, after allowances for trade discounts and returns and excludes value-added taxes ("VAT") and intra-group transactions. Revenue during any period of time is largely dependent on the sales volume of the products of the Group as well as the pricing policy of the Group for that period. Sales volume of the Group's products is dependent on market demand and production capacity of the products, while prices are determined largely in accordance with market conditions and not by reference to any compulsory or directory guidance or instruction from the PRC government or any other regulatory body. Trade receivables from customers of the Group are non-interest bearing and are normally settled on 30 to 120 days' term.

Cost of Sales

Cost of sales represents the costs incurred directly during the production process and mainly comprises the costs of the raw materials, the costs of packaging materials, direct and indirect labour costs, and depreciation of property, plant and equipment. Bills payable to suppliers of the Group are interest-free and have maturity periods ranging from 90 to 180 days.

The following table sets forth for the periods indicated a breakdown of the Group's cost of sales:

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
	(RMB in thousands)		
Cost of Sales	(865,771)	(1,128,793)	(1,273,302)
Raw materials costs	(420,682)	(564,914)	(639,001)
Packaging materials costs	(184,707)	(251,337)	(280,875)
Other production costs	(260,382)	(312,542)	(353,426)

Other Income

Other income mainly comprises income from the sale of scrap materials, government grants and tax refund on capital investment. The government grants received by the Group were made by local governments of Guangdong and Dongguan in recognition of the Group's premium product brands, and they amounted to RMB1.5 million in FY 2006 and RMB0.3 million in FY 2005. The Group did not receive any government grants in FY 2004.

Selling and Distribution Expenses

Selling and distribution costs mainly comprise contract payments made to operators of Retail Points, typically in the form of rebates, promotional fees and shelving charges; transportation expenses; advertising fees; salaries and commissions of sales personnel; and administrative expenses incurred in the operation of Specialty Counters.

General and Administrative Expenses

General and administrative expenses mainly comprise doubtful debt allowances; salaries for executive, managerial and technical staff; expenses incurred in the operation of sales offices, such as rental payments for office premises, logistics centres and warehouses; depreciation; usage fees for vehicles; and employee welfare expenses and contributions to pension funds.

Financial Income

Financial income mainly comprises interest income accrued on bank deposits and, since FY 2005, interest income earned on bank accounts designated for VAT payments. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Taxation—PRC Taxation—Value-added-tax” of this Prospectus. In FY 2005, the tax bureau changed its practice and began giving taxpayers refund on the interest accrued, if any, on their VAT payable accounts.

Financial Expenses

Financial expenses mainly comprise interest expenses and bank charges.

CRITICAL ACCOUNTING POLICIES

Judgments are made in the preparation of the financial statements in the form of estimates and assumptions concerning the future. They affect the Group’s reported amounts of assets, liabilities, income and expenses. Critical accounting policies are policies that require the application of management’s most challenging, subjective, or complex judgments, often as a result of the need to make estimates and assumptions about the effect of matters that are inherently uncertain, thereby creating a significant risk that a material adjustment may need to be made in subsequent periods to the carrying amounts of assets and liabilities involved. The Group’s most critical accounting policies are described below.

Revenue Recognition

The manner in which revenue is recognised involves estimates by management. Significant changes in management estimates may result in revenue adjustments. As a general principle, management recognises revenue when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

- **Sale of goods.** Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customers, which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, recovery of associated costs or the possible return of goods.
- **Interest income.** Interest income is recognised as interest accrues (using the effective rate interest method) unless collectibility is in doubt.
- **Government grant.** Grant income is received from the local PRC government at a discretionary amount as determined by the government. It is recognised at its fair value where there is reasonable assurance that the grant will be received and that all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match them on a systematic basis to the costs which it is intended to compensate. When the grant relates to an asset, it is recognised as deferred grant income on the balance sheet and is amortised to the profit and loss account over the expected useful life of the relevant asset by equal annual installments.

Allowance for Doubtful Receivables

Management analyses the adequacy of allowance for doubtful receivables on a debtor by debtor basis at balance sheet dates. An estimate for doubtful receivables is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. Accounts receivable meeting the following criteria is recognised as bad debts:

- the debtor is deceased or has declared bankrupt and the debts remain not collectible after considering the assets of the bankrupt or the estates of the deceased debtors; and
- debts that are long overdue and there is evidence indicating that debts are not collectible or possibility of collection is remote.

Specific provisions were made to account for bad debt losses on accounts receivable and other receivables. A specific provision refers to an amount that is provided based on the management’s assessment of the recoverability of an individual receivable.

Income Taxes

The Group has exposure to income taxes in the PRC. Significant judgment is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payables was RMB5.6 million as of 30 June 2006, compared with RMB3.3 million as of 30 June 2005 and RMB16.8 million as of 30 June 2004.

Depreciation of Plant and Machinery

The cost less estimated residual value of plant and machinery for the manufacture of confectionery products is depreciated on a straight-line basis over the estimated useful life of the assets. Management estimates the useful life of the Group's production lines to be five to 10 years. The carrying amount of the Group's plant and machinery was RMB570.8 million as of 30 June 2006, compared with RMB562.8 million as of 30 June 2005 and RMB410.5 million as of 30 June 2004. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of the plant and machinery.

Cost of Land Use Rights

As the transfer of certain land use rights from the relevant authorities to the Group had not been completed as of 30 June 2006, the cost of the Group's land use rights had not been finalised. In the opinion of management, the preliminary transfer documents of the Group's land use rights offer the best estimates for their cost, and the Group has recognised the cost of its land use rights and computed the accruals of such land use rights on this basis. It is, however, not certain that the Group can obtain any of the relevant certificates for such land use rights in a timely manner, or at all. See "Risk Factors—The Group does not possess certain Certificates of Real Estate Ownership and Certificates of Land Use Right in respect of certain buildings and land used by the Group" of this Prospectus. The total cost of the Group's land use rights as of 30 June 2006 amounted to RMB149.0 million, compared with RMB149.0 million as of 30 June 2005 and RMB147.7 million as of 30 June 2004, and the total accruals for such land use rights as of 30 June 2006 amounted to RMB59.8 million, compared with RMB85.3 million as of 30 June 2005 and RMB104.5 million as of 30 June 2004.

Recognition of Land Use Rights as Assets

Although the Group has constructed manufacturing facilities and commenced operations on the land acquired in FY 2004, FY 2005 and FY 2006, the transfer of certain land use rights from the relevant authorities to the Group had not been completed as of 30 June 2006. In the opinion of management, these land use rights are assets of the Group because the management believes that the Group has fulfilled the necessary requirements relating to the acquisition of these land use rights and the management is not aware of any factor that will adversely affect the transfer of the land use rights to the Group in due course. However, there is no assurance that the Group will or can obtain any of the relevant certificates for such land use rights in a timely manner, or at all. See "Risk Factors—The Group does not possess certain Certificates of Real Estate Ownership and Certificates of Land Use Right in respect of certain buildings and land used by the Group" of this Prospectus. The Group had land use rights included in intangible assets with carrying value amounting to RMB138.8 million as of 30 June 2006, compared with RMB141.7 million as of 30 June 2005 and RMB143.1 million as of 30 June 2004, and the land use rights that are subject to the completion of transfer of land use rights amounted to RMB119.4 million as of 30 June 2006, compared with RMB121.9 million as of 30 June 2005 and RMB122.9 million as of 30 June 2004. The cost for land use rights is amortised on a straight-line basis over the tenure period of the land use.

SELECTED RESULTS OF OPERATIONS

The following table sets out a summary of the audited combined results of operations for FY 2004, FY 2005 and FY 2006. This summary should be read in conjunction with the Audited Combined Financial Statements of Hsu Fu Chi International Limited for Years ended 30 June 2004, 2005 and 2006 and related notes thereto, which are included elsewhere in this Prospectus.

	FY 2004	FY 2005 (RMB in thousands)	FY 2006
Revenue	1,443,174	1,809,425	2,056,318
Cost of sales	(865,771)	(1,128,793)	(1,273,302)
Gross profit	577,403	680,632	783,016
Other income	2,446	6,647	32,759
Selling and distribution expenses	(264,510)	(363,390)	(381,195)
General and administrative expenses	(117,409)	(132,350)	(184,955)
Profit from operations	197,930	191,539	249,625
Financial income	1,022	1,085	2,427
Financial expenses	(5,874)	(8,401)	(10,116)
Profit before tax	193,078	184,223	241,936
Income tax	(23,905)	(22,520)	(30,575)
Net profit attributable to shareholders	169,173	161,703	211,361

DISCUSSIONS OF COMBINED RESULTS OF THE GROUP FOR THE RELEVANT PERIODS

Comparison between FY 2006 and FY 2005

Revenue

Revenue increased by 13.6% to RMB2,056.3 million in FY 2006 from RMB1,809.4 million in FY 2005. In FY 2006, revenue for all three major product categories increased. As the Group continued to strengthen its sales network, it managed to raise the selling prices of some of its products by selling directly to operators of modern sales channels and suppliers of Neighbourhood Shops. Sales volumes of all three major categories of products also increased as the Group set up 29 additional sales offices and increased its level of sales and marketing activities during this period. Notwithstanding the foregoing, revenue in FY 2006 grew at a lower rate compared with revenue in FY 2005. This was primarily attributable to the shorter Sales Peak Season in FY 2006, for the Chinese New Year fell on an earlier date in 2006 than in 2005, and the Group's decision to stop selling products to selected customers with poor credit history.

- *Candy Products.* Revenue from the sales of Candy Products increased by 8.6% to RMB1,003.2 million in FY 2006 from RMB923.9 million in FY 2005. This was primarily attributable to an increase in their average selling price and, to a lesser extent, an increase in their sales volume. The increase in the sales volume of candies was partially offset by a decrease in the sales volume of chocolates and, to a lesser extent, jelly and pudding.
- *Cake and Cookie Products.* Revenue from the sales of Cake and Cookie Products increased by 17.4% to RMB595.2 million in FY 2006 from RMB506.8 million in FY 2005. This was primarily attributable to an increase in their sales volume and, to a lesser extent, an increase in their average selling price.
- *Sachima Products.* Revenue from the sales of Sachima Products increased by 20.9% to RMB458.0 million in FY 2006 from RMB378.8 million in FY 2005. The increase was attributable to an increase in their sales volume, which was partially offset by a decrease in their average selling price.

Cost of sales

Cost of sales increased by 12.8% to RMB1,273.3 million in FY 2006 from RMB1,128.8 million in FY 2005. The increase in cost of sales reflected the increase in sales volume and, to a lesser extent, in unit production costs. The prices of many raw materials, including sugar, flour and syrup, and packaging materials continued to rise in FY 2006. The effect of the rising prices, however, was partially offset by the Group's cost control measures, such as the strategy of purchasing in bulk quantities by consolidating procurement orders. Further, the Group's fixed production costs decreased on a per unit basis as a result of the larger scale of operations.

Gross Profit

As a result of the foregoing, gross profit increased by 15.0% to RMB783.0 million in FY 2006 from RMB680.6 million in FY 2005. Gross profit margin increased to 38.1% from 37.6%, which reflected the decrease in the unit production costs as a result of the Group's cost control measures and large scale of operations.

Other Income

Other income increased by 397.0% to RMB32.8 million in FY 2006 from RMB6.6 million in FY 2005. The increase reflected a one-time tax refund of RMB27.0 million associated with the Group's capitalisation of a portion of the accumulated profits of Dongguan Hsu Chi as registered capital. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Taxation—PRC Taxation" of this Prospectus. To a lesser extent, proceeds from the sales of scrap materials also increased. As the market for recyclable materials continued to develop in FY 2006, the Group managed to sell its scrap materials at better prices due to their higher salvage value. The effects of the tax refund and the increased proceeds from the sales of scrap materials, however, were partially offset by a decrease in the amount of government grants awarded to the Group.

Selling and Distribution Expenses

Selling and distribution expenses increased by 4.9% to RMB381.2 million in FY 2006 from RMB363.4 million in FY 2005. The increase was primarily attributable to an expansion of the sales network by 29 sales offices, the higher distribution expenses associated with the increased sales volume, and the higher shelving charges paid due to a larger portion of the revenue was derived from direct sales to operators of Retail Points. As a percentage of revenue, selling and distribution expenses, however, decreased from 20.1% to 18.5%, reflecting the Group's continued efforts to strengthen the Sales Headquarters' control of the sales network. The strengthened control enabled the Group to become more efficient in terms of product shelving at the Retail Points and realise savings in expenses incurred by sales personnel.

General and Administrative Expenses

General and administrative expenses increased by 39.7% to RMB185.0 million in FY 2006 from RMB132.4 million in FY 2005. The increase was primarily attributable to increases in personnel expenses and, to a lesser extent, doubtful debt allowances. The increased personnel expenses reflected the hiring of additional permanent administrative staff as the Group continued to expand its sales network as well as the higher salary levels in the market. It also reflected the increased employee welfare expenses as the Group voluntarily raised its level of compliance with the applicable welfare insurance requirements. Additional doubtful debt allowances were made on grounds of prudence as certain customers of the Group, including supermarkets and distributors, went into financial difficulties in FY 2006.

Profit from Operations

As a result of the foregoing, profit from operations increased by 30.3% to RMB249.6 million in FY 2006 from RMB191.5 million in FY 2005. Operating margin increased to 12.1% in FY 2006 from 10.6% in FY 2005.

Financial Income

Financial income increased by 118.2% to RMB2.4 million in FY 2006 from RMB1.1 million in FY 2005. The increase was primarily attributable to an increase in interest income earned on bank accounts designated for VAT payments. Due to the higher VAT paid as a result of the Group's larger scale of operations, the Group received more interest income from the higher average outstanding balances on these accounts in FY 2006.

Financial Expenses

Financial expenses increased by 20.2% to RMB10.1 million in FY 2006 from RMB8.4 million in FY 2005. The increase was primarily attributable to an increase in interest expenses. In FY 2006, there was an increase in

the average amount of outstanding bank borrowings. As the Group continued to expand its scale of operations, it required a higher level of working capital to finance its inventories and trade receivables and to fund its capital expenditures.

Income Tax

Income tax increased by 36.0% to RMB30.6 million in FY 2006 from RMB22.5 million in FY 2005. Such increase was partially attributable to an increase in the Group's profit before tax. The effective tax rate increased to 12.6% in FY 2006 from 12.2% in FY 2005, reflecting primarily the increase in tax rate for Dongguan Hsu Chi from 12% to 18% for the second half of FY 2006. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Results of Operations and Financial Condition—Preferential Tax Treatments" of this Prospectus. Such increase in tax rate, however, was partially offset by the one-time tax savings realized by Dongguan Hsu Chi because income attributable to the capitalisation of a portion of the accumulated profits of Dongguan Hsu Chi as registered capital was tax exempt. See note 9 to the Audited Combined Financial Statements of Hsu Fu Chi International Limited for Years ended 30 June 2004, 2005 and 2006.

Net Profit Attributable to Shareholders

As a result of the foregoing, net profit attributable to shareholders of the Group increased by 30.7% to RMB211.4 million in FY 2006 from RMB161.7 million in FY 2005. Net profit margin increased to 10.3% in FY 2006 from 8.9% in FY 2005.

Comparison between FY 2005 and FY 2004

Revenue

Revenue increased by 25.4% to RMB1,809.4 million in FY 2005 from RMB1,443.2 million in FY 2004. In FY 2005, revenue from the sales of all three product categories increased. The Group raised the selling prices of its major products in response to the increased market demand, which was driven primarily by the higher market profile of the brand as the Group set up eight additional sales offices and increased its level of sales and marketing activities during this period. In addition, the Group benefited from a longer Sales Peak Season in FY 2005: the Chinese New Year fell on a later date in 2005 than in 2004, which had a positive impact on sales volume.

- *Candy Products.* Revenue from the sales of Candy Products increased by 23.6% to RMB923.9 million in FY 2005 from RMB747.2 million in FY 2004, which was attributable to an increase in their sales volume and, to a lesser extent, an increase in their average selling price.
- *Cake and Cookie Products.* Revenue from the sales of Cake and Cookie Products increased by 26.7% to RMB506.8 million in FY 2005 from RMB399.9 million in FY 2004. This was again due to an increase in their sales volume and, to a lesser extent, an increase in their average selling price.
- *Sachima Products.* Revenue from the sales of Sachima Products increased by 27.9% to RMB378.8 million in FY 2005 from RMB296.1 million in FY 2004. This increase was attributable to an increase in their sales volume and, to a lesser extent, an increase in their average selling price.

Cost of sales

Cost of sales increased by 30.4% to RMB1,128.8 million in FY 2005 from RMB865.8 million in FY 2004. The increase reflected the increase in unit production costs and, to a lesser extent, in sales volume. In FY 2005, there were increases in the prices of many raw materials, including eggs, sugar, flour and syrup, and packaging materials.

Gross Profit

As a result of the foregoing, gross profit increased by 17.9% to RMB680.6 million in FY 2005 from RMB577.4 million in FY 2004. Gross profit margin, however, decreased to 37.6% from 40.0%, which reflected the increase in the unit production costs as a result of the increases in the costs of materials.

Other Income

Other income increased by 175.0% to RMB6.6 million in FY 2005 from RMB2.4 million in FY 2004. The increase was primarily attributable to the government grants awarded to the Group, donations from suppliers to the Group's Chinese New Year prize draw, and additional proceeds from the sales of scrap materials.

Selling and Distribution Expenses

Selling and distribution expenses increased by 37.4% to RMB363.4 million in FY 2005 from RMB264.5 million in FY 2004. The increase was primarily attributable to an expansion of the sales network by eight sales offices, the enhanced level of sales and marketing activities and the higher distribution expenses associated with the increased sales volume. In addition, the Group paid more shelving charges because a larger portion of the revenue was derived from direct sales to operators of Retail Points. As a percentage of revenue, selling and distribution expenses increased to 20.1% in FY 2005 from 18.3% in FY 2004. The increase reflected the time required for a new sales office to achieve the operating efficiencies and planned sales levels due to challenges typically associated with a new operation.

General and Administrative Expenses

General and administrative expenses increased by 12.7% to RMB132.4 million in FY 2005 from RMB117.4 million in FY 2004. The increase was primarily attributable to increases in personnel expenses and depreciation for property, plant and equipment, which were partially offset by a decrease in doubtful debt allowances. As the Group expanded its scale of operations in FY 2005, more permanent administrative staff was hired. In addition, the Group completed during FY 2005 the construction of its main office building in Dongcheng District, Dongguan, which resulted in higher depreciation expenses. Doubtful debt allowances decreased as the Group continued to tighten the credit terms made available to traditional sales channels.

Profit from Operations

As a result of the foregoing, profit from operations decreased by 3.2% to RMB191.5 million in FY 2005 from RMB197.9 million in FY 2004. Operating margin decreased to 10.6% in FY 2005 from 13.7% in FY 2004.

Financial Income

Financial income increased by 10.0% to RMB1.1 million in FY 2005 from RMB1.0 million in FY 2004. The increase was primarily attributable to interest income earned on the bank accounts designated for VAT payments. In FY 2005, the tax bureau changed its practice and began giving taxpayers refund on the interest accrued on their VAT payable accounts.

Financial Expenses

Financial expenses increased by 42.4% to RMB8.4 million in FY 2005 from RMB5.9 million in FY 2004. The increase was primarily attributable to an increase in interest expenses. In FY 2005, there was an increase in the average amount of outstanding bank borrowings. The Group also borrowed from its Executive Chairman, Mr. Hsu Chen, a term loan in the amount of HK\$12.0 million in April 2004 to purchase equipment from overseas. The term loan bore interest at the market rate based on a fixed rate of 4.99% and was repaid in full in December 2005. See “Interested Person Transactions and Potential Conflicts of Interests - Interested Person Transactions” of this Prospectus.

Tax

Tax decreased by 5.9% to RMB22.5 million in FY 2005 from RMB23.9 million in FY 2004. Such decrease was in line with the decrease in the Group’s profit before tax. The effective tax rate decreased to 12.2% in FY 2005 from 12.4% in FY 2004.

Net Profit Attributable to Shareholders

As a result of the foregoing, net profit attributable to shareholders of the Group decreased by 4.4% to RMB161.7 million in FY 2005 from RMB169.2 million in FY 2004. Net profit margin decreased to 8.9% in FY 2005 from 11.7% in FY 2004.

LIQUIDITY AND CAPITAL RESOURCES

The Group utilises modern equipment imported from countries such as Germany and Japan. See “Business - Production Facilities and Capacity” of this Prospectus. As a result of the modern equipment used and the high degree of automation in its manufacturing process, the Group expects labour costs to comprise an increasingly smaller percentage of its production costs. To maintain a corporate infrastructure capable of supporting its nationwide operations, the Group also requires large amounts of working capital for inventories and trade receivables.

The Group uses a variety of sources to finance its operations. As of the Latest Practicable Date, the Group's internal source of liquidity was primarily derived from cash flows from operations and its cash and cash equivalents of RMB150.7 million, and its external source of liquidity was primarily derived from bank borrowings. As at the Latest Practicable Date, the Group's material unused sources of liquidity were its cash and cash equivalents of RMB150.7 million and unutilised banking facilities of RMB831.4 million.

Cash Flows

The following table summarises the Group's cash flows for the years indicated:

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
	<u>(RMB in thousands)</u>		
Net cash generated from operating activities	215,682	291,015	144,789
Net cash used in investing activities	(199,913)	(270,692)	(271,868)
Net cash generated from (used in) financing activities	2,366	(34,000)	148,544
Net increase (decrease) in cash and cash equivalents	18,135	(13,677)	21,469

Net cash generated from operating activities

FY 2006. The Group recorded a net cash inflow from operating activities of RMB144.8 million in FY 2006, which comprised operating profit before changes in working capital of RMB391.8 million, adjusted for net working capital outflows of RMB197.5 million, net interest paid of RMB 7.7 million and income taxes paid of RMB41.8 million. The net working capital outflows were mainly the result of:

- a decrease in trade and bills payables of RMB114.4 million, which was primarily attributable to the Group's strategy to offer prompt payments to its suppliers in return for better prices and a more reliable supply of raw materials and packaging materials;
- a decrease in other payables and accruals of RMB75.5 million, which was primarily attributable to the payment to the PRC government of a portion of the accrued cost of the land use rights on which Factory No.1 and Factory No. 5 were located; and
- an increase in inventories of RMB62.9 million, which was primarily attributable to a one-time purchase of a significant amount of high-grade sugar from the PRC Government in a bidding process in April 2006.

The above working capital outflows were partially offset by, among others, a decrease in the amount of deposits in the Group's bank accounts designated for VAT payments of RMB72.1 million.

FY 2005. The Group recorded a net cash inflow from operating activities of RMB291.0 million in FY 2005, which comprised operating profit before changes in working capital of RMB298.7 million, adjusted for net working capital inflows of RMB38.4 million, net interest paid of RMB 7.3 million and income taxes paid of RMB38.8 million. The net working capital inflows were mainly the result of:

- an increase in trade and bills payables of RMB60.5 million, which was primarily attributable to the increased level of business activities; and
- an increase in other payables and accruals of RMB38.8 million, which was primarily attributable to increases in shelving charges and distribution expenses as the Group continued to establish direct customer relationships with selected operators of Retail Points.

The above working capital inflows were partially offset by, among others, an increase in trade and bills receivables of RMB49.1 million, which was primarily attributable to the increased level of business activities.

FY 2004. The Group recorded a net cash inflow from operating activities of RMB215.7 million in FY 2004, which comprised operating profit before working capital changes of RMB298.2 million, adjusted for net working capital outflows of RMB42.0 million, net interest paid of RMB4.9 million and income tax paid of RMB35.7 million. The net working capital outflows were mainly the result of increases in trade and bills receivables of RMB115.8 million, inventories of RMB63.6 million and prepayments, other receivables and deposits of RMB29.9 million, which were primarily attributable to a return of the Group's business activities to their normal level following the SARS epidemic in 2003.

The above working capital inflows were partially offset by, among others:

- an increase in other payables and accruals of RMB50.0 million, which was primarily attributable to increases in shelving charges and distribution expenses as the Group established direct customer relationships with selected operators of Retail Points; and
- an increase in trade and bills payables of RMB130.2 million, which was primarily attributable to a return of the Group's business activities to their normal level following the SARS epidemic in 2003.

Net cash used in investing activities

FY 2006. The Group recorded a net cash outflow from investing activities of RMB271.9 million in FY 2006. This was mainly due to the purchase of property, plant and equipment of RMB249.0 million in conjunction with the construction of Factory No. 5 and the acquisition of machinery for the production of Candy Products. In addition, the Group made additional payments of RMB25.5 million for land use rights.

FY 2005. The Group recorded a net cash outflow from investing activities of RMB270.7 million in FY 2005. This was mainly due to the purchase of property, plant and equipment of RMB251.0 million in conjunction with the construction of the main office building, a new dormitory and a new Sachima production facility and the acquisition of machinery for the production of Candy Products and Sachima Products. In addition, the Group made additional payments of RMB20.5 million for land use rights.

FY 2004. The Group recorded a net cash outflow from investing activities of RMB199.9 million in FY 2004. This was mainly due to the purchase of property, plant and equipment of RMB190.1 million in conjunction with the acquisition of machinery for the production of Cake and Cookie Products. In addition, the Group made additional payments of RMB10.6 million for land use rights.

Net cash generated from (used in) financing activities

FY 2006. The Group recorded a net cash inflow from financing activities of RMB148.5 million in FY 2006. This was mainly due to the net proceeds of RMB455.0 million from new bank loans, which was partially offset by the repayment of some of the existing bank loans in the aggregate amount of RMB265.0 million. In addition, the Group made a cash dividend payment of RMB41.5 million.

FY 2005. The Group recorded a net cash outflow from financing activities of RMB34.0 million in FY 2005. This was mainly due to the repayment of bank loans in the aggregate amount of RMB194.0 million, which was partially offset by the net proceeds of RMB160.0 million from new bank loans.

FY 2004. The Group recorded a net cash inflow from financing activities of RMB2.4 million in FY 2004. This was mainly due to the net proceeds of RMB45.0 million from new bank loans, which were drawn down to address the Group's short-term capital needs in connection with its increased scale of operations. The effect of such proceeds, however, was partially offset by the payment of a cash dividend of RMB42.6 million.

Working Capital Analysis

The following table sets forth, for the years indicated, some of the Group's liquidity ratios.

	FY 2004	FY 2005	FY 2006
Inventory turnover days ⁽¹⁾	54	46	57
Trade receivable turnover days ⁽²⁾	84	72	60
Trade payable turnover days ⁽³⁾	66	42	25

Notes:

⁽¹⁾ Inventory turnover days means the amount of ending inventory balances divided by cost of sales and multiplied by 365 days.

⁽²⁾ Trade receivable turnover days means the amount of ending trade receivable balances divided by revenue and multiplied by 365 days.

⁽³⁾ Trade payable turnover days means the amount of ending trade payable balances divided by cost of sales and multiplied by 365 days.

Inventory turnover days. The increase in inventory turnover days from FY 2005 to FY 2006 reflected an increase in the turnover days for raw materials, which was partially offset by a decrease in the turnover days for

finished goods. Turnover days for raw materials increased because the Group purchased a significant amount of high-grade sugar from the PRC Government in a bidding process in April 2006. The sugar purchased was of a quantity sufficient to meet the Group's needs for approximately seven months. The decrease in inventory turnover days from FY 2004 to FY 2005 reflected decreases in the turnover days for finished goods and, to a lesser extent, the turnover days for raw materials. In FY 2005, the Group adopted a new strategy to centralise its inventory management through the installation of a group-wide database and to keep the bulk of its inventory of finished goods in its Sales Headquarters in Dongguan rather than in sales offices across most of the PRC. This strategy has enabled the Group to acquire better control over the transportation and warehousing of finished goods and reduce the volume of finished goods stored at each sales office, resulting in the decrease in the turnover days for finished goods.

Trade receivable turnover days. The decreases in trade receivable turnover days from FY 2005 to FY 2006 and from FY 2004 to FY 2005 primarily reflected the Group's improved management of trade receivable from customers and a change in the Group's customer mix. As part of the Group's new strategy to tighten the credit terms made available to traditional channels, the Group strengthened its capability of monitoring the status of individual customer accounts and customer profile and adjusting the credit terms extended to each customer. In addition, as the Group continued to expand its sales network, its customer base became more diversified because a growing portion of the revenue was derived from sales to modern sales channels and suppliers of Neighbourhood Shops, rather than from sales to distributors. Unlike distributors, most suppliers to Neighbourhood Shops are smaller customers or customers with a limited credit history, to which the Group sells products generally on a cash-on-delivery basis. Such change in customer mix has contributed to the decrease in trade receivable turnover days.

Trade payable turnover days. The decreases in trade payable turnover days from FY 2005 to FY 2006 and from FY 2004 to FY 2005 primarily reflected changes in the Group's procurement strategy and in industry practices. The Group has chosen to shorten payment terms in exchange for better prices and steadier supply for its raw materials and packaging materials. Further, due to the increases in the market prices of many raw materials and packaging materials, many suppliers have been seeking to reduce their risks by demanding shorter payment terms from manufacturers making bulk purchases.

Banking Facilities

The Group generally finances its operations from internal cash flow and banking facilities provided by its principal bankers in the PRC. The Group uses bills payables, short-term bank loans and long-term bank loans as its principal financing instruments. The details of these facilities as of 30 June 2006 were as follows:

Type of facilities ⁽¹⁾	Aggregate amount available under the facilities	Restrictions on Use of Loan Proceeds	Amount utilised	Amount unutilised
		(RMB in thousands)		
Bills payable	470,000	—	127,170	342,830
Short-term bank loans				
Category A	10,000	Repayment of existing bank loans	10,000	—
Category B	10,000	Purchase of raw materials	10,000	—
Category C	380,000	Financing of working capital	190,000	190,000
Category D	110,000	No restrictions	—	110,000
Subtotal	510,000		210,000	300,000
Long-term bank loans				
Category A	60,000	Construction of Factory No. 5	20,000	40,000
Category B	100,000	Mid-term to long-term cash flow needs	30,000	70,000
Category C	60,000	No restrictions	—	60,000
Subtotal	220,000		50,000	170,000
Total	1,200,000		387,170	812,830

Notes:

⁽¹⁾ The loans have been classified into multiple categories based on the type of restrictions imposed on the use of proceeds. Loans within the same category may be extended by one or multiple lenders.

The unutilised facilities are available for use to meet the Group's future working capital and capital expenditure requirements, subject to the agreement of the banks.

Bills payable. The Group uses bills payable to finance its working capital requirements. Bills payable to banks are interest-free and have maturity periods ranging from 90 to 180 days. As of 30 June 2006, bills payable in the aggregate amount of RMB54.8 million were guaranteed by certain subsidiaries of the Company.

Short-term bank borrowings. In addition to bills payable, the Group uses short-term bank borrowings to finance its working capital requirements. The short-term loans that were outstanding as of 30 June 2006 have interest rates ranging from 4.698% to 4.860% per annum and are repayable in full from August 2006 to December 2006. Interest is payable monthly. All of the loans are uncollateralised. As of 30 June 2006, loans in the aggregate principal amount of RMB120.0 million were guaranteed by certain subsidiaries of the Company.

Long-term bank borrowings. The Group uses long-term borrowings to fund its capital expenditures. There were two long-term loans outstanding as of 30 June 2006. One bank loan in the principal amount of RMB30.0 million bears interest at 5.184% per annum and is repayable in full in December 2007. The loan is guaranteed by a subsidiary of the Company. The other bank loan in the principal amount of RMB20.0 million bears interest at 5.022% per annum and is repayable in full in December 2006. Both loans are uncollateralised.

A substantial portion of the Group's short-term and long-term borrowings may be subject to repayment upon a material deterioration of the Group's financial condition, results of operations or its ability to perform under the loan agreements. In the loan agreements relating to borrowings in the aggregate principal amount of RMB140.0 million, the Group has agreed not to offer guarantee or pledge or mortgage its assets for the benefit of third parties unless the contingent liability assumed is less than its net assets. In the loan agreements relating to borrowings in the aggregate principal amount of RMB130.0 million, the Group has agreed to seek the lender's consent before entering into any affiliated transaction involving 5% of its total assets, 20% of its net assets, or 10% of its profit before tax in its most recent fiscal year. As of the Latest Practicable Date, the Group was in compliance with its loan covenants.

In addition, the Group has mortgaged some of the land use rights and real estate in which Factory No. 3 is located as security for a long-term credit facility and some other real estate in which Factory No. 3 is located as security for another long-term credit facility. As of 30 June 2006, these land use rights and real estate were valued at RMB36.3 million and RMB3.8 million, respectively. The Group is in the process of registering these mortgages. See "Business - Properties" of this Prospectus. As of the Latest Practicable Date, the Group had not drawn down under the two facilities any loans that were secured by these mortgages.

The following table summarises annual principal amounts due by year of maturity for the Group's bank borrowings outstanding as of 30 June 2006.

	Payments Due by Period				
	Total	Less than 1 year or on demand	1-3 years	4-5 years	More than 5 years
	(RMB in thousands)				
Bills payable	127,170	127,170	—	—	—
Short-term borrowings	210,000	210,000	—	—	—
Long-term borrowings	50,000	20,000	30,000	—	—

The Directors are of the reasonable opinion, that after taking into account the cash flows from the Group's operations, the existing banking facilities and the Group's cash and cash equivalents, the Group has sufficient working capital for its present requirements as of the date of this Prospectus.

Capital Expenditures

The Group's capital expenditures primarily consist of investment in manufacturing facilities for production process upgrade and capacity expansion, and investment in sales and distribution network for logistics framework improvement. Investment in manufacturing facilities includes the acquisition of land, the construction of buildings, and the purchase of manufacturing equipment and machinery. Investment in sales and distribution network includes the establishment of warehouses, logistics centres, and sales offices and the installation of equipment and software to enhance the communications between the sales network across the PRC and the headquarters in Dongguan.

Capital expenditures in FY 2004, FY 2005, FY 2006 and the period from 1 July 2006 to the Latest Practicable Date were RMB142.1 million, RMB270.9 million, RMB254.4 million and RMB179.2 million, respectively. The Group's capital expenditure commitments as of 30 June 2006 were as follows:

	Payments Due by Period				
	Total	Less than 1 year or on demand	1-3 years	4-5 years	More than 5 years
	(RMB in thousands)				
Property, plant and equipment	59,490	51,750	7,740	—	—
Construction-in-progress	28,685	7,520	21,165	—	—

As of the Latest Practicable Date, the Group had capital expenditure commitments amounting to RMB64.4 million, and the planned capital expenditures for FY 2007 will be used primarily for production capacity enhancement and sales network expansion. The Group intends to fund and adjust such expenditures through cash from operating activities and proceeds from this Invitation.

Please refer to Note 12 of the Audited Combined Financial Statements of Hsu Fu Chi International Limited for years ended 30 June 2004, 2005 and 2006 for more information regarding the property, plant and equipment of the Group.

Other Contractual Obligations and Commitments

The Group's other contractual obligations and commitments as of 30 June 2006 consisted of operating lease commitments and purchase commitments.

Operating lease commitments. The Group has operating lease agreements for its office premises, warehouses and staff quarters in the PRC and office premises in Hong Kong. Certain of these leases have options for renewal. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing. Future minimum rentals payable under non-cancellable operating leases as of 30 June 2006 were as follows:

	Payments Due by Period				
	Total	Less than 1 year or on demand	1-3 years	4-5 years	More than 5 years
	(RMB in thousands)				
Operating leases	13,178	2,865	2,737	1,404	6,172

Purchase commitments. The Group has purchase commitments of raw materials. Payments for such commitments as of 30 June 2006 were as follows:

	Payments Due by Period				
	Total	Less than 1 year or on demand	1-3 years	4-5 years	More than 5 years
	(RMB in thousands)				
Raw material purchase	96,039	96,039	—	—	—

Off-Balance Sheet Arrangements

Except for the other contractual obligations and commitments described above, the Group has not entered into any off-balance sheet arrangements, such as financial guarantees or other commitments to guarantee the payment obligations of any third parties, derivative financial instruments, interest rate swap transactions or foreign currency forward contracts.

MARKET RISKS

The Group's principal financial instruments comprise term loans, bills payable, cash and short-term deposits. The Group does not hold or issue derivative financial instruments for trading purposes. The main risks arising from the Group's financial instruments are interest rate risk (both fair value and cash flow), liquidity risk, foreign currency risk and credit risk.

Credit Risk

The management monitors the Group's trade receivable balances on an ongoing basis and believes that the Group's exposure to bad debts is not significant. As of 30 June 2004, 2005 and 2006, there was no significant concentration of credit risk. The Group seeks to reduce its credit risks by requiring customers to trade in cash or restrictive credit terms, unless they are recognised and creditworthy third parties.

Foreign Currency Risk

The Group conducts its business primarily in RMB, which is also its functional and reporting currency. The Group also has transactional currency exposure arising from sales in United States dollars and Hong Kong dollars. As such, the Group has trade receivables denominated in the respective currencies as disclosed in the combined financial statements. The Group has also bank balances denominated in United States dollars and Hong Kong dollars. Accordingly, the Group's balance sheets can be affected by movements in the United States dollar/RMB and Hong Kong dollar/RMB exchange rates.

The Group may need to convert RMB into foreign currencies to purchase imported manufacturing equipment. RMB is not a freely-convertible currency. Payments for imported materials or services, which is outside of the PRC, are subject to the availability of foreign currency, which depends on the foreign currency denominated earnings of the enterprises. Exchanges of RMB for foreign currency must be arranged through the People's Bank of China, the PRC central bank ("PBOC"), or other authorised financial institutions and is granted to enterprises in the PRC for valid reasons such as purchase of imported materials and remittance of earnings. While conversion of RMB into Hong Kong dollars, United States dollars or other currencies can generally be effected at PBOC or other authorised financial institutions, there is no guarantee that it can be effected at all times. See "Risk Factors - Risks Relating to the PRC - PRC foreign exchange control may limit the Company's ability to utilise its revenue effectively and affect its ability to receive dividends and other payments from the Company's PRC-incorporated subsidiaries" of this Prospectus.

In addition, the Group's net assets, earnings and any declared dividends are affected by movements in the RMB to United States dollar exchange rates. The Group does not currently hedge its foreign currencies exposure. Going forward, should the Group decide to enter into any hedging transactions, prior to doing so, the Group will seek the approval of the Board on the policy for entering into such transactions and put in place adequate procedures which will be reviewed and approved by the Audit Committee. Although the exchange rate has been relatively stable since 1994, the Group cannot predict nor give any assurance of the future stability of the currency. On 21 July 2005, PBOC announced that the exchange rate of U.S. dollar to RMB would be adjusted to US\$1 to RMB8.11 from US\$1 to RMB8.27, and that the RMB would be pegged to a basket of currencies, the components of which to be adjusted based on changes in market supply and demand in accordance with the prescribed principles, instead of to the U.S. dollar only. On 23 September 2005, the PRC Government widened the daily trading band to 3.0% from 1.5% for RMB against non-U.S. dollar currencies.

Inflation

According to the National Bureau of Statistics of the People's Republic of China, the changes in the consumer price index in China were 1.2%, 3.9% and 1.8% in 2003, 2004 and 2005, respectively. Inflation may lead to an increase in the cost of materials but such increase is generally passed over time onto consumers through higher selling prices. The Group has not been materially affected by the recent inflationary pressures in China.

Interest Rate Risk

The Group is exposed to risks resulting from fluctuations in interest rates on its bank borrowings. Some of these borrowings bear interest at rates that are subject to adjustment by lenders in accordance with changes in the relevant regulations promulgated by PBOC. PBOC has the sole authority in the PRC to establish the official interest rates for RMB-denominated loans, and financial institutions in the PRC set their effective interest rates within the range established by PBOC. PBOC raised the official interest rates three times in FY 2004, FY 2005 and FY 2006, as a result of which the benchmark one-year lending rate increased from 5.31% to 5.58% in October 2004, 5.85% in April 2006 and 6.12% in August 2006.

If PBOC increases interest rates, the Group's finance costs will be increased. In addition, to the extent that the Group may need to obtain debt financing in the future, upward fluctuations in interest rates will increase the cost of new debt. Interest rate fluctuation is expected to have only a limited impact on the Group's financial condition. The Group does not currently hedge its interest rate exposure. Going forward, should the Group decide to enter into any hedging transactions, prior to doing so, the Group will seek the approval of the Board on the policy for entering into such transactions and put in place adequate procedures, which will be reviewed and approved by the Audit Committee.

Liquidity risk

The Group closely monitors the outstanding balance of cash and cash equivalents. It seeks to maintain the balance at a level deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Surplus cash is deposited with reputable banks.

TAXATION

PRC Taxation

All of the revenue generated by the Group within the PRC is subject to EIT. The Group also pays other taxes in conjunction with its operations.

Enterprise income tax. A business entity operating in the PRC is generally subject to EIT at a rate of 33% on its assessable income in accordance with the Provisional Enterprise Income Tax Law of the PRC (中华人民共和国企业所得税暂行条例) and other pertinent rules and regulations. Under the Income Tax Law of PRC for Enterprises with Foreign Investment and Foreign Enterprises (外商投资企业和外国企业所得税法), however, certain favourable tax treatments are offered to Foreign Investment Enterprises (“FIEs”) that qualify as High and New Technology Enterprises (高新技术企业) and are registered and operate in specified high-tech zones in the PRC.

Dongguan Hsu Chi, a subsidiary of the Company, has qualified as a High and New Technology Enterprise (高新技术企业) and is entitled to a reduced EIT rate of 15%, so long as it maintains such status and continues to operate in Dongguan. The status is valid for two years beginning on 1 January 2006 and may be extended for another two years upon a successful re-assessment. The PRC Government could determine at any time to immediately eliminate or reduce such preferential tax treatment and the Group’s effective EIT would increase as a result. To qualify as a High and New Technology Enterprise (高新技术企业) for EIT purposes, a business entity generally must meet certain financial and non-financial criteria, including the following:

- a minimum level of revenues generated from high technology related sales or services as a percentage of total revenues;
- a minimum number of employees engaged in research and development; and
- a minimum research and development expenses as a percentage of total revenues.

An FIE is entitled to an EIT refund if it capitalises a portion or all of its accumulated profits as registered capital. The amount of refund equals to 100.0% (in the case of an FIE with the Technologically Advanced Foreign Invested Enterprise status) or 40.0% (in the case of other FIEs) of the EIT attributable to the amount of accumulated profits being capitalised.

In FY 2004, FY 2005 and FY 2006, EIT in the amounts of RMB30.6 million, RMB22.5 million and RMB23.9 million, respectively, were assessed against the Group.

Value-added tax. As required by PRC laws, the Group pays VAT on the sales of its products (“Sales VAT”). Sales VAT is generally calculated at 17% of the invoiced value of the products sold. The Group also pays VAT on its purchases (“Consumption VAT”), which is set off against the Sales VAT for the purpose of arriving at the net VAT amount payable. See Note 2 to the Audited Combined Financial Statements of Hsu Fu Chi International Limited for the Years ended 30 June 2004, 2005 and 2006. The Group is required to deposit the amounts of VAT payable into bank accounts designated for VAT payments according to the schedule prescribed by the tax bureau. All VAT payments deposited into the bank accounts are included in other accounts payable on the balance sheet, but the Group does not have control over the amounts deposited. The tax bureau collects the VAT payments by debiting the bank accounts directly. It may take many months before the tax bureau elects to debit the VAT payments from the relevant bank accounts.

Taxation of Other Entities

The Company. The Company was incorporated in the Cayman Islands. Under the laws of the Cayman Islands, the Company is not subject to tax on its income or capital gains.

Hsu Fu Chi Holdings. Hsu Fu Chi Holdings, the intermediate holding company, was incorporated in British Virgin Islands. Under the laws of British Virgin Islands, the entity is not subject to tax on its income or capital gains, and its payment of dividends is not subject to withholding tax in British Virgin Islands.

Other operating subsidiaries. Hsu Fu Chi (Hong Kong) was incorporated in Hong Kong and is subject to income tax at the rate of 17.5%. Top Ocean was incorporated in Western Samoa and is not subject to tax on its income.

DIRECTORS AND EXECUTIVE OFFICERS

The following table provides information regarding the Directors, Executive Officers and other key employees as of the date of this Prospectus.

Directors

<u>Name</u>	<u>Age</u>	<u>Address</u>	<u>Principal Occupation</u>	<u>Country of Principal Residence</u>
<i>Executive Directors</i>				
徐乘 (Hsu, Chen)	54	Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	Executive Chairman of Group	PRC
胡嘉逊 (Hu, Chia-Hsun)	55	Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	President of Group	PRC
徐杭 (Hsu, Hang)	52	Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	Chief Operating Officer of Group	PRC
徐梗 (Hsu, Keng)	48	Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	Chief Technology Officer of Group	PRC
<i>Non-executive Directors</i>				
徐恬 (Hsu, Tien)	25	4F, No. 199 Section 2, Chang-An East Road, Taipei, Taiwan	Marketing analyst at The Gap Inc.	Taiwan
云惟生 (Hoon Wee Teng, Will)	43	7A Boscombe Road Singapore 439764	Executive Vice President of Transpac Capital Pte Ltd	Singapore
<i>Independent Directors</i>				
林国鸣 (John Lim Kok Min)	65	7 Greenmead Avenue Singapore 289400	Group President and Director of LMA International N.V.	Singapore
林福山 (Lim Hock San)	59	10 Peirce Road Singapore 248529	President and Chief Executive Officer of United Industrial Corporation Limited and Singapore Land Limited	Singapore
蓝钦槐 (Lam Khin Khui)	58	29 Shangri-la Walk Singapore 568206	Management consultant	Singapore

Executive Officers

<u>Name</u>	<u>Age</u>	<u>Address</u>	<u>Principal Occupation</u>	<u>Country of Principal Residence</u>
邢汉强 (Heng Hock Kiong @ Heng Hang Siong)	41	Block 267 Toh Guan Road, #19-03 Singapore 600267	Financial Controller	Singapore
郭强 (Guo, Qiang)	43	Zhou Wu Industrial District, Dong Cheng District, Dong Guan, Guandong, PRC	Head of Production Department	PRC
马浩 (Ma, Hao)	40	182, Qi Feng Road Blk 3 Room 203, Guan Cheng, Dongguan City, Guangdong Province, PRC	Head of Quality Control Department	PRC
王长汉 (Wang, Chang Han)	67	Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	Head of Finance Department	PRC
杨焜第 (Yang, Kun-Ti)	48	Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	Deputy Head of Sales Department	PRC

The Directors' working and business experience, education and professional qualifications, if any, are set out below:

Executive Directors

Hsu, Chen

Mr. Hsu, Chen is the Executive Chairman and one of the founders of the Group. He oversees the Sales Department, Marketing Department and Product Development Department. He is also currently the director of certain subsidiaries of the Company. He was appointed a Director on 18 October 2006. Mr. Hsu, Chen has extensive experience in the confectionery and snack food industry. Prior to the founding of the Group in 1992, Mr. Hsu, Chen was the general manager of Hsu Chi (Taiwan) Foods Co., Ltd., a company in the business of processing candies, dried bean curd, preserved fruits, melon seeds, peanuts and barbecued pork, from 1976 to 1992. He was also the general manager of Taiwan An Gu Foods (Marketing) Industrial Co. Ltd, which was involved in the import, marketing and sales of the products of Hsu Chi (Taiwan) Foods Co. Ltd. during the same period. From 1991 to 1995, Mr. Hsu, Chen was the general manager of Hsu Chi (Indonesia) Food (Manufacturing) Company and was responsible for its overall operations. He was also the general manager of Thailand Hua Tai Liang He Company (a company in the business of production and trading of preserved fruits) from 1985 to 1995. Mr. Hsu, Chen attended, but did not finish his studies at, the Ming Hsin Institute of Industrial Technology from 1969 to 1970.

Hu, Chia-Hsun

Mr. Hu, Chia-Hsun is the President and was appointed a Director on 25 October 2006. He is currently a non-executive director of Central Human-Resource & Management Co., Ltd. and ITAI Engineering & Construction Co. Ltd., which were both founded by him in Taiwan in 1991 and 1997 respectively. He acted as executive director for both of these companies until 2005. From 1986 to 1990, Mr. Hu, Chia-Hsun was a senior consultant at Technomic Consultants Co., a marketing research company, and was responsible for the co-ordination and control of its business administration. Mr. Hu Chia-Hsun holds a Bachelor of Science Degree from Tamkang University, Taiwan and a Master's degree in Business Administration from Andrews University, United States.

Hsu, Hang

Mr. Hsu, Hang is the Chief Operating Officer and was appointed a Director on 18 October 2006. He is also one of the founders of the Group and is responsible for the Company's administrative operations. He is currently the director of certain subsidiaries of the Company. He is currently the Vice-President of Dongguan Taiwan Investment Enterprise Association. He was the President of the Dongcheng Branch of Dongguan Taiwan Investment Enterprise Association from 1999 to 2001. Prior to founding the Group in 1992, Mr. Hsu, Hang was a sales director of Taiwan An Gu Foods (Marketing) Industrial Co., Ltd., from 1981 to 1992, a company in the

business of selling and distributing snack food products. Mr. Hsu, Hang is currently pursuing a degree in Executive Master's degree in Business Administration at Pacific Western University in the United States. He holds a diploma from the Institute of World's Journalism.

Hsu, Keng

Mr. Hsu, Keng is the Chief Technology Officer and was appointed a Director on 25 October 2006. He is also one of the founders of the Group and is responsible for the Company's production and equipment technology. He is currently the director of certain subsidiaries of the Company. Prior to founding the Group in 1992, Mr. Hsu, Keng was responsible for the sales and logistics of Taiwan An Gu Foods (Marketing) Industrial Co., Ltd. from 1984 to 1992. He holds a diploma from the Institute of World's Journalism.

Non-executive Directors

Hsu, Tien

Ms. Hsu, Tien was appointed a Director on 25 October 2006. She is currently a non-executive director of Hsu Fu Chi Holdings. She was an assistant sales person at UBS Investment Bank from 2004 to September 2006 and was responsible for analytical research, stock sales and trading and roadshow co-ordination. She is currently a marketing analyst at The Gap Inc. Ms. Hsu holds a Bachelor of Arts degree from the University of California at Berkeley.

Hoon Wee Teng, Will

Mr. Hoon Wee Teng, Will was appointed a Director of the Company on 25 October 2006. He holds the position of Executive Vice President and is responsible for investment management at Transpac Capital since 2000. Prior to joining Transpac Capital, he held the position of Managing Director and Head of Private Equity at the Crosby Group, an Asian investment bank, from 1998 to 2000. He has also held key senior positions at the Asian practices of Bain & Company and Boston Consulting Group. Mr. Hoon has more than 17 years of experience in the private equity and management consulting industries. He has extensive experience serving on executive committees of operating companies and investment committees of private equity funds. Mr. Hoon is a Chartered Marketer and a Fellow of the Chartered Institute of Marketing in the United Kingdom. He is also a Fellow of the Hong Kong Institute of Directors, a Fellow of the Marketing Council Asia, a Member of the Institute of Directors in the United Kingdom, a Member of the Singapore Institute of Directors and a Member of the Young Presidents' Organization in the United States. Mr. Hoon is currently serving as the Regional Chairperson of the Massachusetts Institute of Technology Educational Council. He is also currently serving as the 1st Vice Chairman of the Chartered Institute of Marketing (Singapore) and Vice Chairman of the Council of China Foreign Trade. Mr. Hoon graduated with a degree from the Massachusetts Institute of Technology in the United States and completed graduate research at the University of Cambridge (Trinity College) in the United Kingdom.

Independent Directors

John Lim Kok Min

Mr. John Lim Kok Min was appointed a Director on 25 October 2006. He is the Chairman of the Building and Construction Authority of Singapore and of Senoko Power Limited. Prior to that, he was the Group Managing Director of Pan-United Corporation Ltd from March 1997 to November 2000, Group Managing Director of JC-MPH Ltd from April 1993 until March 1997, and the Chief Executive Officer of Cold Storage Holdings Ltd from 1991 until March 1993. He currently serves on the board of Directors and Audit, Remuneration and the Nominating Committees of several listed and private companies, and is the Audit Committee Chairman of NTUC Fairprice Co-operative Ltd, Boustead Singapore Limited and Pan-United Marine Limited. He was awarded the Public Service Medal (PBM) by the President of Singapore in 2006 and is also the President of the Singapore Institute of Directors, a member of the Securities Industry Council, a Senate Member of the Marketing Institute of Singapore, and a former Director/Council Member of both the Singapore International Chamber of Commerce and the Singapore Confederation of Industries. Mr. Lim has over 40 years of extensive senior management experience in the Asia-Pacific region, and has held directorships in companies in the Asia-Pacific region, including Australia and New Zealand. He holds an honours degree in Economics from the University of Malaya.

Lim Hock San

Mr. Lim Hock San was appointed a Director on 25 October 2006. He is presently the President and Chief Executive Officer of United Industrial Corporation Limited as well as Singapore Land Limited. He currently

serves on the Board of Directors of various companies, including Keppel Corporation Limited, Interra Resources Limited, Ascendas Pte Ltd, United Test and Assembly Center Ltd, Gallant Venture Ltd., and Singapore Land Limited. He was the Director-General of the Civil Aviation Authority of Singapore (“CAAS”) from 1975 to 1992. He is a fellow of the Institute of Certified Public Accountants of Singapore and the Chartered Institute of Management Accountants in the United Kingdom. Mr. Lim was awarded the Meritorious Service Award by National Trades Union Congress (“NTUC”) in 1992. He was also awarded the Public Administration Medal (Gold) in 1982 and the Public Service Medal in 2001 by the Singapore Government. Mr. Lim holds a Bachelor of Accountancy degree from the then University of Singapore and a Master of Science in Management from the Massachusetts Institute of Technology.

Lam Khin Khui

Mr. Lam Khin Khui was appointed a Director on 25 October 2006. He currently serves on the Board of Directors of Rotary Engineering Limited., Thai Rotary Engineering Ltd and Egon Zehnder International Pte Ltd. He is currently a partner at Egon Zehnder International, a management consulting firm. Prior to that, he was a senior manager at Temasek Holdings (Private) Limited from 1980 to 1987 and was the Company Secretary of Temasek Holdings (Private) Limited from 1988 to 1989. Mr. Lam holds a Bachelor of Engineering from the University of Melbourne and a Diploma in Business Administration from The University of Singapore.

Executive Officers

The Executive Officers’ working and business experience, education and professional qualifications, if any, are set out below:

Heng Hang Siong

Mr. Heng Hock Kiong @ Mr. Heng Hang Siong is the Financial Controller of the Group and is responsible for the Company’s overall financial functions, including financial strategy, budgeting and management control and financial management. Mr. Heng was appointed the Financial Controller on 31 July 2006. Prior to joining the Company, Mr. Heng was the Group Financial Controller of JK Yaming International Holdings Ltd, a company listed on the SGX-ST, from 2005 to 2006. He was the Financial Controller of Shenzhen Brightway Petrochemical Co. Ltd from 2004 to 2005. Prior to that, Mr. Heng was the Finance Director of Nextec Applications Pte Ltd from 2001 to 2004. He was the Financial Controller of Novena Holdings Ltd from 2000 to 2001. In addition, he was the regional internal audit manager of Philips Electronics Singapore Pte Ltd from 1997 to 2000, where he had internal audit and risk management responsibilities. Mr. Heng is a member of the American Institute of Certified Public Accountants, the Institute of Management Accountants, the Institute of Internal Auditors, and the Institute of Certified Public Accountants of Singapore. Mr. Heng holds a Bachelor’s degree in business administration from Baruch College, The City University of New York and a Master of Science from Lubin Graduate School of Business, Pace University.

Guo, Qiang

Mr. Guo, Qiang is the Head of Production Department and is responsible for the production operations of the Company. Mr. Guo joined Dongguan Hsu Chi in 2004. Prior to that, Mr. Guo was the head of the quality control department in QingDao Beer Limited from 1999 to 2004 and was responsible for the quality control of its products. From 1996 to 1999, Mr. Guo was the deputy factory manager in a factory owned by Hai Hou Qing Dao Enterprise Bureau and was responsible for the production, quality control and technology management of the factory. From 1983 to 1996, Mr. Guo was a supervisor of Technology and Quality Control Department at Qing Dao Soft Drinks Factory, a state-owned factory and was responsible for the technology management and development of the factory. Mr. Guo holds a degree from South China University of Technology.

Ma, Hao

Mr. Ma, Hao is the Head of Quality Control Department and is responsible for quality control of Group’s products and the safety and hygiene of the Group’s products. Mr. Ma has over 15 years of experience in quality control of certain food products. Mr. Ma joined Dongguan Hsu Chi in 1997 and was in charge of quality control and safety and hygiene of the Group’s products. Prior to joining Dongguan Hsu Chi, Mr. Ma was the Deputy Factory Manager of Dongguan Hao Le Ice-cream Factory from 1988 to 1997 and was responsible for quality control of its products and technology. Mr. Ma holds a Bachelor’s degree in food engineering from South China University of Technology in 1988.

Wang, Chang Han

Mr. Wang, Chang Han is Head of Finance Department. Mr. Wang joined Dongguan Hsu Chi in 1993 and was responsible for the Group's finance operations. Prior to joining Dongguan Hsu Chi, Mr. Wang was in the finance department of Hunan Shuguang Electronics Group Company from 1960 to 1993 and was responsible for the company's finance operations. Mr. Wang has, in aggregate, more than 30 years of experience in the finance departments of these companies. Mr. Wang has been certified as an accountant by the PRC Ministry of Labour and Human Resources in 1980.

Yang, Kun-Ti

Mr. Yang, Kun-Ti is the Deputy Head of Sales Department and is responsible for sales management and receivable collection managements in the Sales Department. Mr. Yang joined Dongguan Hsu Chi in 2004. Prior to that, he was the general manager of Wen Dan Tang Food Co., Ltd., a company in the business of food products and was responsible for its management and sales, from 1996 to 2004. Mr. Yang was the Division Chief of Taiwan An Gu Foods (Marketing) Industrial Co., Ltd, a company in the business of selling and distributing snack food products, from 1986 to 1992 and was responsible for the sales of the company's products. Mr. Yang attended, but did not finish his studies, at the National Open University.

Board Practices

The Articles provide that the Board of Directors shall consist of not less than two Directors. Each Director shall retire from office at least once every three years. A retiring Director shall be eligible for re-election.

Term of Office

At the first Annual Meeting of the Company after the Listing Date, Mr. Hsu, Keng, Ms. Hsu, Tien and Mr. Lam Khin Khui will retire from the Board of Directors. Subsequently, the other Directors will retire from the Board of Directors at the Annual General Meetings in the following years:

Retiring at the Company's Second Annual General Meeting after Listing Date

Hu, Chia-Hsun
Hsu, Hang
Lim Hock San

Retiring at the Company's Third Annual General Meeting after Listing Date

Hsu, Chen
Hoon Wee Teng, Will
John Lim Kok Min

Directors who retire from the Board of Directors at each Annual General Meeting will be eligible for re-election during that Annual General Meeting.

Family Relations

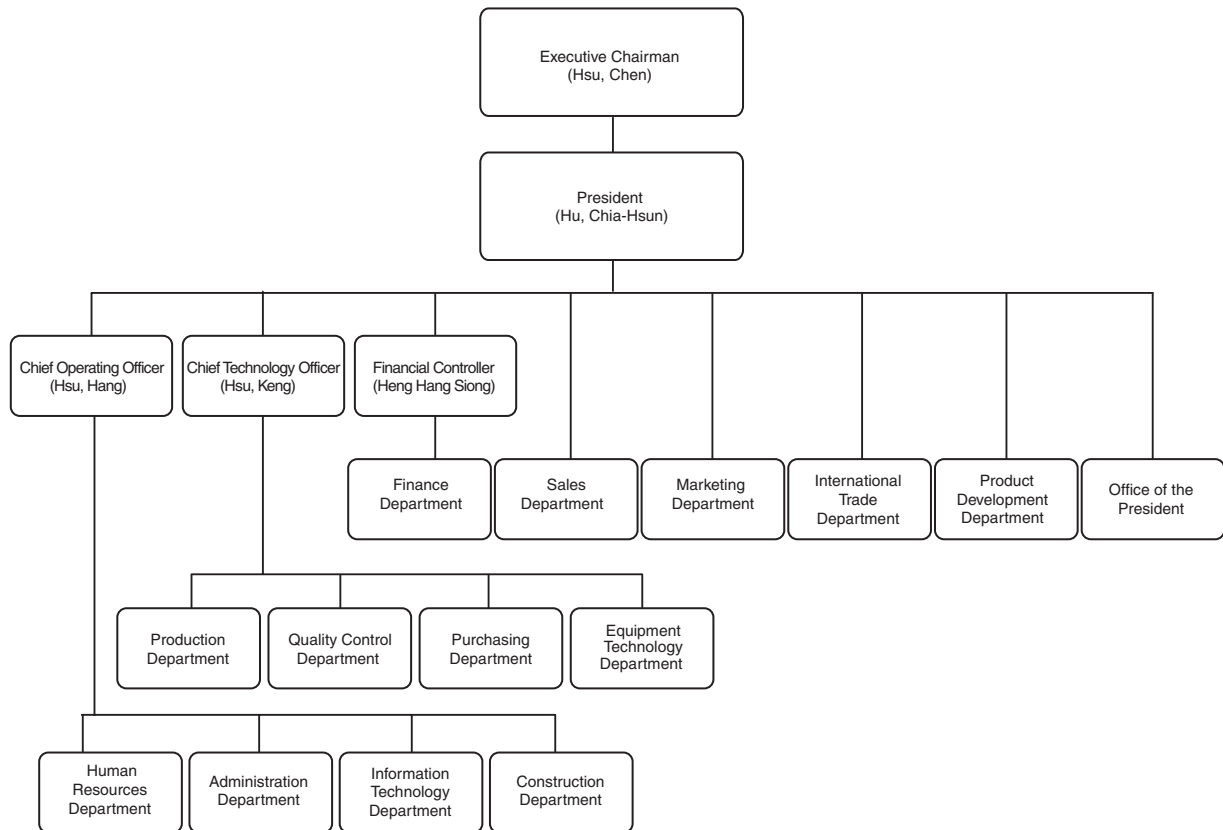
Mr. Hsu, Chen, Mr. Hsu, Pu, Mr. Hsu, Hang and Mr. Hsu, Keng are brothers. Ms. Hsu, Tien is the daughter of Mr. Hsu, Pu and accordingly, the niece of Mr. Hsu, Chen, Mr. Hsu, Hang and Mr. Hsu, Keng. Save as disclosed in this Prospectus, none of the Directors and the Executive Officers is related to one another or to any Substantial Shareholder of the Company.

Arrangements or Understandings

For a description of the arrangements and understandings between the Controlling Shareholders, please see "Shareholders - Ownership Structure" of this Prospectus. Mr. Hsu, Chen, Mr. Hu, Chia-Hsun, Mr. Yu Hung-Hsin and Mr. Chang Hsiu-Cheng are co-investors in other businesses but they are not acting in concert with each other to control the Company. Ms. Hsu, Tien is representing the interests of her father, Mr. Hsu, Pu, on the Board of Directors. Mr. Hoon Wee Teng, Will, is nominated by Transpac Capital to represent it on the Board of Directors.

Save as disclosed in this Prospectus, there is no arrangement or understanding between each of the Directors and Executive Officers and a Substantial Shareholder, customer or supplier of the Company or other person, pursuant to which any of the Directors and Executive Officers was selected as a Director or Executive Officer of the Company.

MANAGEMENT REPORTING STRUCTURE



In addition to the responsibilities set out in the management reporting structure above:

The Executive Chairman, Mr. Hsu, Chen, oversees the Sales Department, Marketing Department, and Product Development Department.

The President, Mr. Hu, Chia-Hsun, oversees the Human Resources Department, Administration Department, Information Technology Department, Construction Department, Production Department, Quality Control Department, Purchasing Department, Equipment Technology Department, Finance Department and International Trade Department.

For a description of the responsibilities of the other Executive Officers, Mr. Guo, Qiang, Mr. Ma, Hao, Mr. Wang, Chang Han and Mr. Yang, Kun-Ti, please see their principal occupations as set out in “Directors and Executive Officers - Executive Officers” of this Prospectus.

DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION

The compensation in bands of S\$250,000, paid to the Directors and Executive Officers of the Group for services rendered to the Company and its subsidiaries on an aggregate basis and in remuneration bands during the last two most recent completed financial years, and expected to be payable (but excluding any bonus that may be payable) to each of these Directors and Executive Officers for services rendered to the Company and its subsidiaries for FY 2007, is as follows:-

	Actual		Estimated
	FY 2005	FY 2006	FY 2007
Directors			
Hsu, Chen	B ^{(1)*}	B ^{(1)*}	D*
Hu, Chia-Hsun	Nil	A ^{(1)*}	C*
Hsu, Hang	A ^{(1)*}	A*	A*
Hsu, Keng	A ^{(1)*}	A*	A*
Hsu, Tien	nil	nil	A*
Hoon Wee Teng, Will	nil	nil	A
John Lim Kok Min	nil	nil	A
Lim Hock San	nil	nil	A
Lam Khin Khui	nil	nil	A
Executive Officers			
Heng Hang Siong	nil	nil	B
Guo, Qiang	A ^{(1)*}	A ^{(1)*}	A*
Ma, Hao	A ^{(1)*}	A ^{(1)*}	A*
Wang, Chang Han	A ^{(1)*}	A ^{(1)*}	A*
Yang, Kun-Ti	A ^{(1)*}	A ^{(1)*}	A*

Note:-

Remuneration bands:

“A” refers to remuneration up to S\$249,999

“B” refers to remuneration between S\$250,000 and S\$499,999

“C” refers to remuneration between S\$500,000 and S\$749,999

“D” refers to remuneration between S\$750,000 and S\$999,999

(1) Includes bonus paid or payable and the amount of bonus is determined at the discretion of the Group.

* The translation was based on the mid-closing exchange rate of RMB5.017:S\$1.00 and S\$1.5762:US\$1.00 as at the Latest Practicable Date. No representation is made that the RMB amount stated can be converted at that rate or any other rate.

No compensation was paid or is to be paid in the form of share options. The Company currently has no plans to implement share option or share incentive plans, but cannot rule out the possibility of doing so in the future.

Compensation includes any benefit in kind, and includes any deferred compensation accrued for FY 2005, FY 2006 and FY 2007 and payable at a later date.

SERVICE AGREEMENTS

There are no existing or proposed service contracts entered or to be entered into by the Directors with the Company or any of its subsidiaries which provide for benefits upon termination of employment.

Mr. Hsu, Chen has entered into a service agreement with the Company for an initial fixed period of three years (the “**Initial Period**”) commencing from 20 November 2006. Mr. Hsu, Chen’s term of service is renewable, upon the agreement of the Company and Mr. Hsu, Chen, for successive terms of one year each commencing from the day next after the expiry of the then current term of his appointment. The same terms as set out in the service agreement shall apply *mutatis mutandis* to any renewed term of appointment of Mr. Hsu, Chen, save as to salary, the applicable amount of which shall be agreed between the Company and him in respect of the renewed term of appointment.

Under the terms of the service agreement, Mr. Hsu, Chen is entitled to an annual basic salary of US\$500,000. The Company may, but is not obligated to, pay a bonus to Mr. Hsu, Chen at its sole discretion.

The Company may terminate the appointment of Mr. Hsu, Chen prior to the expiry of the term of his employment if:

- (a) he shall be disqualified to act as an director or officer of the Company under any applicable law, the Articles, the Singapore Take-over and Merger Laws and Regulations or any rules prescribed by the SGX-ST;
- (b) he shall be guilty of any dishonesty, gross misconduct or wilful neglect of duty or shall commit any continued material breach of the terms of the service agreement after written warning (other than a breach which is capable of remedy and has been remedied by him to the satisfaction of the Board within 30 days upon his being called upon to do so in writing by the Board);
- (c) he shall be guilty of conduct likely to bring himself or any member of the Group into disrepute;
- (d) he shall become bankrupt or make any arrangement or composition with his creditors or suffers a receiving order being made against him;
- (e) any company (other than a member of the Group) in which he is a director or an executive officer or a direct or indirect shareholder becomes insolvent or suffers the presentation of a winding up petition or analogous proceedings brought against it;
- (f) he is convicted of any criminal offence (other than an offence which in the reasonable opinion of the Board does not affect his position in the Company);
- (g) he persistently refuses to carry out any reasonable lawful order given to him in the course of his employment or persistently fails diligently to attend to his duties hereunder; or
- (h) he shall during the term of the service agreement be absent (other than during periods of statutory holiday and annual leave) for an aggregate period of 45 working days.

It is provided in the service agreement that Mr. Hsu, Chen shall have no claim against the Company for compensation or damages for or otherwise by reason of termination under paragraphs (a) to (h) above.

CORPORATE GOVERNANCE

The Directors recognise the importance of corporate governance and high standards of accountability to the shareholders of the Company.

The Articles provide that the Company's Board of Directors shall consist of not less than two Directors. Each Director shall retire from office at least once every three years. A retiring Director shall be eligible for re-election.

The Board of Directors has formed three committees: (i) the nominating committee (the "Nominating Committee"); (ii) the remuneration committee (the "Remuneration Committee"); and (iii) the audit committee (the "Audit Committee").

Nominating Committee

The Nominating Committee comprises Mr. John Lim Kok Min, Mr. Hoon Wee Teng, Will and Mr. Lam Khin Khui. The Chairman of the Nominating Committee is Mr. John Lim Kok Min. The Nominating Committee has the duties of, amongst other things:-

- (a) re-nomination of the Directors having regard to the Director's contribution and performance;
- (b) determining annually whether or not a Director is independent; and
- (c) deciding whether or not a Director is able to and has been adequately carrying out his duties as a Director.

The Nominating Committee will decide how the Board's performance is to be evaluated and develop objective performance criteria which address how the Board has enhanced long-term Shareholders' value. The Nominating Committee will also implement a process for assessing the effectiveness of the Board as a whole and for assessing the contribution of each individual Director to the effectiveness of the Board. The Chairman of the Nominating Committee will act on the results of the performance evaluation of the Board, and where appropriate, propose new members to be appointed to the Board of Directors or seek the resignation of Directors, in consultation with the Nominating Committee. Each member of the Nominating Committee shall abstain from voting on any resolutions in respect of the assessment of his performance or re-nomination as Director.

Remuneration Committee

The Remuneration Committee comprises Mr. Lam Khin Khui, Mr. Hoon Wee Teng, Will and Mr. Lim Hock San. The Chairman of the Remuneration Committee is Mr. Lam Khin Khui. The Remuneration Committee will develop a framework of remuneration and the specific remuneration packages for the Directors and the key executives. The Remuneration Committee will, if necessary, seek expert advice inside and/or outside the Company on remuneration of all Directors.

The Remuneration Committee shall cover all aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits in kind. Each member of the Remuneration Committee shall abstain from voting on any resolutions in respect of his remuneration package.

Audit Committee

The Audit Committee comprises Mr. Lim Hock San, Mr. Hoon Wee Teng, Will and Mr. John Lim Kok Min. The Chairman of the Audit Committee is Mr. Lim Hock San.

The Audit Committee shall meet periodically to perform the following functions, amongst other things:-

- (a) review with the external auditors the audit plan, their evaluation of the system of internal controls, their audit report, their management letter and the management's response;
- (b) review the scope and results of the audit and its cost effectiveness, and the independence and objectivity of the external auditors. Where the auditors supply a substantial volume of non-audit services to the Company, the Audit Committee shall keep the nature and extent of such services under review;
- (c) review the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial

performance, focusing in particular, on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards as well as compliance with any stock exchange and statutory/regulatory requirements;

- (d) review the adequacy of internal controls (namely, the Company's internal financial controls, operational and compliance controls) and risk management policies and systems established by the management. The Audit Committee shall ensure that a review of the effectiveness of the Company's internal controls is conducted at least annually;
- (e) review the effectiveness of the Company's internal audit functions;
- (f) ensure co-ordination between the external auditors and the management, reviewing the assistance given by the management to the auditors, and discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of the management where necessary);
- (g) review and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results or financial position, and the management's response;
- (h) appoint, re-appoint and remove the external auditors, and approve the remuneration and terms of engagement of the external auditors;
- (i) review arrangements by which the staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Audit Committee shall ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action;
- (j) review transactions falling within the scope of Chapter 9 and Chapter 10 of the Listing Manual;
- (k) review potential conflicts of interest, if any;
- (l) review due diligence procedures conducted by the management before the application of the proceeds from the Invitation to the expansion projects in Sichuan and Liaoning and the building of the agricultural products processing facility in Henan;
- (m) undertake such other reviews and projects as may be requested by the Board of Directors; and
- (n) generally to undertake such other functions and duties as may be required by statute or the Listing Manual, and by such amendments made thereto from time to time.

Apart from the duties listed above, the Audit Committee shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on the Company's operating results and/or financial position.

INTERESTED PERSON TRANSACTIONS AND POTENTIAL CONFLICTS OF INTERESTS

INTERESTED PERSON TRANSACTIONS

Details of each transaction or loan (excluding dividends), or proposed transaction or loan between the Group and any of its Interested Persons (namely, the Directors, Controlling Shareholders of the Company or their respective Associates) during FY 2004, FY 2005 and FY 2006 and the period from 1 July 2006 until the Latest Practicable Date and which the Group considers material in the context of the Invitation are described below. The amounts shown in this section have been rounded, unless the exact amount is used.

In April 2004, the Group borrowed from the Executive Chairman a term loan of HK\$12 million to facilitate the Group's purchase of machinery from overseas. This loan was repaid in full in December 2005 and the interest paid by the Group to the Executive Chairman had accrued at the rate of 4.99% per annum over the tenor of such loan. The interest rate was fixed at the time of repayment of this loan. The Group considers this interest rate to be beneficial to the Group because it was less than the interest rate for Hong Kong dollars for a loan period of 18 months, prevailing at the time of fixing such interest rate. Please refer to "Audited Combined Financial Statements of Hsu Fu Chi International Limited for Years ended 30 June 2004, 2005 and 2006—Notes to the Combined Financial Statements—30 June 2004, 2005 and 2006—(7) Related party transactions" under the line item "interest expense on loan from a director" for the interest expense incurred by the Group in respect of this loan during FY 2004, FY 2005 and FY 2006.

The Group considers the following transactions between the Group and an Associate of Mr. Hsu, Pu who is one of the Controlling Shareholders of the Company as immaterial because the value of these transactions is insignificant when compared against the Group's net tangible asset value as at 30 June 2006.

嘉利达实业有限公司 (Kalitex Industrial Limited) ("Kalitex") and 威力国际企业有限公司 (Strong Power International Enterprise Limited) ("Strong Power"), are companies controlled by Mr. Hsu, Pu, who also acts as executive director of Kalitex and Strong Power. The transactions entered into between the Group and each of Kalitex and Strong Power are as follows:

Kalitex leases office space and office equipment to Hsu Fu Chi (Hong Kong). The size of the office space is approximately 30 sq.m. The lease is expected to be renewed annually. The lease was negotiated on an arm's length basis and on normal commercial terms, taking into account prevailing market rental for space in that area. Please refer to "Audited Combined Financial Statements of Hsu Fu Chi International Limited for Years ended 30 June 2004, 2005 and 2006—Notes to the Combined Financial Statements—30 June 2004, 2005 and 2006—(7) Related party transactions" under the line item "office rental expenses" for the office rental expense incurred by the Group in respect of this lease during FY 2004, FY 2005 and FY 2006.

Top Ocean sells the Group's products to Kalitex and Strong Power for distribution in Hong Kong. In addition, Hsu Fu Chi (Hong Kong) sells the Group's products to Kalitex and Strong Power. The Group considers these transactions to have been entered into on an arm's length basis as they were based on the same selling prices quoted to other customers of Top Ocean and Hsu Fu Chi (Hong Kong). The Group does not intend to continue selling its products to Kalitex for distribution in Hong Kong. Please refer to "Audited Combined Financial Statements of Hsu Fu Chi International Limited for Years ended 30 June 2004, 2005 and 2006—Notes to the Combined Financial Statements—30 June 2004, 2005 and 2006—(7) Related party transactions" under the line item "sale of goods" for the sales revenue of the Group generated in respect of these transactions during FY 2004, FY 2005 and FY 2006.

The aggregate value of these transactions was less than HK\$900,000 in FY 2006, was less than HK\$200,000 in FY 2005 and was less than HK\$100,000 in FY 2004. In the first month of FY 2007, it was less than HK\$300,000. Although these transactions are expected to continue, the Group does not expect their value to be material to the Group.

Review Procedures

The Company will implement the following procedures for the identification of Interested Persons and the recording of all the interested person transactions:

- (1) The Group Financial Controller will maintain a register of all transactions carried out with the Interested Persons (and the basis, including the quotations obtained to support such basis, on which these transactions are entered into); and

- (2) on a quarterly basis, the Group Financial Controller will submit a report to the Audit Committee of all recorded interested person transactions, and the basis of such transactions, entered into by the Group. The Company's annual internal audit plan shall incorporate a review of all interested person transactions.

In addition, the Audit Committee shall also review from time to time such internal controls and review procedures for interested person transactions to determine if they are adequate and/or commercially practicable in ensuring that the transactions between the Group and the Interested Persons are conducted on normal commercial terms and not prejudicial to the interests of the Company and the minority Shareholders. In conjunction with such review, the Audit Committee will also ascertain whether the established review procedures have been complied with.

For the purposes of the above review of the internal controls and review procedures, any of the Directors or a member of the Audit Committee who is not considered independent, will abstain from participating in the Audit Committee's review of the internal controls and review procedures.

The Board of Directors and the Audit Committee will have overall responsibility for determining the review procedures with the authority to delegate to individuals or committees within the Group as they deem appropriate.

POTENTIAL CONFLICTS OF INTERESTS

Kalitex carries on the business of leasing property and distribution of food products in Hong Kong.

Strong Power carries on the business of importing and distribution of food products in Hong Kong. Strong Power is a customer of Hsu Fu Chi (Hong Kong) in Hong Kong and it is the agent and vendor for products imported from overseas (such as the US and Taiwan).

Mr. Hsu, Pu's son, Mr. Hsu, James Chin controls 徐记老大房有限公司 (Hsu Chi Lao Da Fang Co., Ltd) ("Hsu Chi Lao Da Fang"), a Taiwan-incorporated company that carries on the business of manufacturing and selling baked food products in Taiwan.

Mr. Hsu, Pu's wife, Ms. Hsiao, Wen Hui controls 台湾安多利行销股份有限公司 (Taiwan An Duo Li Marketing Co., Ltd) ("An Duo Li"), a Taiwan-incorporated company that carries on the business of selling and distributing packaged preserved fruits and boxed candies in Taiwan.

None of Kalitex, Strong Power, Hsu Chi Lao Da Fang or An Duo Li carries on business in the PRC and do not have any manufacturing capabilities.

Since the Group's business is based in the PRC and more than 95% of its revenue in FY 2006 was derived from sales of its confectionery products in the PRC, the Group does not compete with any of Kalitex, Strong Power, Hsu Chi Lao Da Fang or An Duo Li which are operating in a different geographical market.

Save as disclosed above, none of the Directors, Executive Officers or Controlling Shareholders or any of their Associates has an interest in any entity carrying on the same business or dealing in similar products as the Group.

Mitigation

The Company believes that any potential conflicts of interest (including those arising from the interested person transactions mentioned above) are addressed as follows:

- (1) the Company will establish policies and procedures, including internal audit controls, to ensure that the transactions with its Controlling Shareholders and their Associates are entered into on an arm's length basis and on commercial terms consistent with the Group's usual business practices and policies;
- (2) upon the Company's listing on the SGX-ST, the Company will be subject to the SGX-ST listing rules on interested person transactions. The objective of these rules is to ensure that the Group's interested person transactions do not prejudice the interests of the Shareholders as a whole. These rules require the Company to make prompt announcements, disclosures in its annual report and/or seek Shareholders' approval for certain material interested person transactions;

- (3) the Audit Committee will review interested person transactions on a periodic basis to ensure compliance with the Company's policies and procedures, including internal audit controls, referred to above and with the relevant provisions of the SGX-ST listing rules. If a member of the Audit Committee has an interest in a transaction, he will abstain from participating in the review and approval process of the Audit Committee in relation to that transaction. The Audit Committee will also review the policies and procedures to ensure that they are adequate to achieve the objectives of ensuring that our interested person transactions are fair and reasonable to us and not prejudicial to the Company's interests and the interests of the Company's minority Shareholders;
- (4) pursuant to the Articles, a Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first considered, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested. A Director shall not vote on any resolution of the Board in respect of any contract or arrangement or proposed contract or arrangement in which he has directly or indirectly a personal material interest. However, the interested Director need not be excluded from being counted in the quorum for the meeting at which such contract or arrangement or proposed contract or arrangement is considered;
- (5) the powers of the directors of a company incorporated in the Cayman Islands are limited by reference to both the company's memorandum and articles of association and the Cayman Companies Law. In the exercise of those powers, the laws of the Cayman Islands do not impose an all-embracing code of conduct on directors. Many of the duties and obligations of a director are statutory; others are found only at common law. The Cayman Companies Law contains numerous provisions relating to the duties of directors and prescribes penalties for breach. The Cayman Companies Law makes no distinction between executive and non-executive directors. In addition to the duties prescribed in the laws of the Cayman Islands, directors owe their company a number of fiduciary duties akin to the relationship between principal and agent and also a duty of common law to take reasonable care when managing the company. One of the fiduciary duties of a director is that he must not put himself in a position where there is an actual or potential conflict between his personal interest and his duty to the company. The nature of any director's interest should be declared by him at the meeting of the directors at which the question of entering into the contract or arrangement is first taken into consideration, and in a case where the director becomes interested in a contract or arrangement after it is made then at the first opportunity after he becomes so interested; and
- (6) pursuant to a deed of undertaking made by Mr. Hsu, Pu, Ms. Hsiao, Wen Hui, Mr. Hsu, James Chin and Ms. Hsu, Tien dated 20 November 2006:
- (i) Mr. Hsu, Pu has undertaken to the Company and its subsidiaries that for so long as he, Ms. Hsiao, Wen Hui, Mr. Hsu, James Chin or Ms. Hsu, Tien is a director of the Company or any of its subsidiaries and he, Ms. Hsiao, Wen Hui, Mr. Hsu, James Chin and Ms. Hsu, Tien have an aggregate interest (whether deemed or direct) in 15% or more of the issued shares in the Company, he and his associates will not and he and his associates shall procure (provided that he shall not be under any obligation to procure, in relation to Kalitex or Strong Power (each, a "**Relevant Company**"), if he ceases to control that Relevant Company and is no longer involved in that Relevant Company in an executive capacity) that none of the Relevant Companies will, at any time from 20 November 2006, be engaged or involved in any way in the manufacturing, marketing or selling of confectionery products in the PRC, other than through his deemed or direct interests in the shares in the Company;
 - (ii) Ms. Hsiao, Wen Hui has undertaken to the Company and its subsidiaries that for so long as she, Mr. Hsu, Pu, Mr. Hsu, James Chin or Ms. Hsu, Tien is a director of the Company or any of its subsidiaries and she, Mr. Hsu, Pu, Mr. Hsu, James Chin and Ms. Hsu, Tien have an aggregate interest (whether deemed or direct) in 15% or more of the issued shares in the Company, she will not and she shall procure (provided that she shall not be under any obligation to procure, in relation to An Duo Li, if she ceases to control An Duo Li and is no longer involved in An Duo Li in an executive capacity) that An Duo Li will not, at any time from 20 November 2006, be engaged or involved in any way in the manufacturing, marketing or selling of confectionery products in the PRC, other than through her interest (if any) in the shares in the Company;
 - (iii) Mr. Hsu, James Chin has undertaken to each of the Company and its subsidiaries that for so long as he, Mr. Hsu, Pu, Ms. Hsiao, Wen Hui or Ms. Hsu, Tien is a director of the Company or any of its subsidiaries and he, Mr. Hsu, Pu, Ms. Hsiao, Wen Hui or Ms. Hsu, Tien have an aggregate

interest (whether deemed or direct) in 15% or more of the issued shares in the Company, he will not and he shall procure (provided that he shall not be under any obligation to procure, in relation to Hsu Chi Lao Da Fang, if he ceases to control Hsu Chi Lao Da Fang and is no longer involved in Hsu Chi Lao Da Fang in an executive capacity) that Hsu Chi Lao Da Fang will not, at any time from 20 November 2006, be engaged or involved in any way in the manufacturing, marketing or selling of confectionery products in the PRC, other than through his interest (if any) in the shares in the Company; and

- (iv) Ms. Hsu, Tien has undertaken to each and all of the Hsu Fu Chi Companies that for so long as she, Mr. Hsu, Pu, Ms. Hsiao, Wen Hui or Mr. Hsu, James Chin is a director of the Company or any of its subsidiaries and she, Mr. Hsu, Pu, Ms. Hsiao, Wen Hui and Mr. Hsu, James Chin have an aggregate interest (whether deemed or direct) in 15% or more of the issued shares in the Company, she will not, at any time from 20 November 2006, be engaged or involved in any way in any way in the manufacturing, marketing or selling of confectionery products in the PRC, other than through her interest (if any) in the shares in the Company.

Interests of Underwriters or Financial Advisers

In the reasonable opinion of the Directors, Cazenove does not have a material relationship with the Company save that the Invitation is underwritten by Cazenove as the Sole Global Coordinator, Sole Bookrunner, Sole Sponsor, Lead Manager and Underwriter of the Invitation. In addition, Cazenove and its affiliates may in the future engage in investment banking transactions with the Company in the ordinary course of business for which they may receive customary compensation.

DESCRIPTION OF THE SHARES

The following description of the Company's share capital summarises certain provisions of its Memorandum of Association and Articles of Association. Such summaries do not purport to be complete and are subject to, and are qualified in their entirety by reference to and all of the provisions of its Memorandum of Association and Articles of Association (copies of which are available for inspection at the place referred to in "General and Statutory Information—Documents Available for Inspection" of this Prospectus) and the Cayman Companies Law

Share capital

Subject to the Cayman Companies Law and to the rules or regulations of the Designated Stock Exchange (as defined in the Articles), no shares may be issued by the Board of Directors without the prior approval of the Company in general meeting.

Subject to the above and to the Articles 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 of Directors, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration and upon such terms and conditions as the Board of Directors may in its absolute discretion determine. However, no shares shall be issued at a discount and provided always that: (a) no shares shall be issued to transfer a controlling interest in the Company without the prior approval of its members in general meeting; (b) subject to any direction to the contrary that may be given by the Company in general meeting, any issue of shares for cash to its members holding shares of any class shall be offered to such members in proportion as nearly as may be to the number of shares of such class then held by them and the provisions of the second sentence of Article 12(2) of its Articles with such adaptations as are necessary shall apply; and (c) any other issue of shares, the aggregate of which would exceed the limits referred to in Article 12(3) of its Articles, shall be subject to the approval of the Company in general meeting.

Shares

Subject to any special rights or restrictions as to voting for the time being attached to any Shares by or in accordance with the Articles, at any general meeting:

- (i) on a show of hands every member present in person (or being a corporation, is present by a representative duly authorised under Article 83 of the Articles) or by proxy shall have one vote and the chairman of the meeting shall determine which proxy shall be entitled to vote where a member (other than CDP) is represented by two proxies, and
- (ii) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative, shall have one vote for every fully paid share of which he is the holder or which he represents and in respect of which all calls due to the Company have been paid, but so that no amount paid up or credited as paid up on a Share in advance of calls or instalments is treated for the foregoing purposes as paid up on the Share.

If the member is CDP, CDP may appoint more than two proxies to attend and vote at the same general meeting and each proxy shall be entitled to exercise the same powers on behalf of CDP as CDP could exercise, including the right to vote individually on a show of hands.

Holders of Shares shall be entitled to share in the Company's profits by way of dividends declared or distribution approved by the Company in general meeting in accordance with the Cayman Companies Law.

Shareholders are entitled to the surplus assets of the Company in the event that it is wound up. If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company and whether or not the assets shall consist of properties of one kind or shall consist of properties to be divided as aforesaid of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property 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 the members as the liquidator with the like authority shall think fit, and the liquidation of the Company may be

closed and the Company dissolved, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

Dividend rights

Subject to the Cayman Companies Law, the Company in general meeting may from time to time declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of the share premium account or any other fund or account which may be authorised for this purpose in accordance with the Cayman Companies Law, provided that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated as paid up on the share; and
- (ii) all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

The Board may deduct from any dividend or other moneys 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.

Unclaimed dividends or bonuses

The Articles provide that all dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board of Directors for the benefit of the Company until claimed. Any dividend or bonuses unclaimed after a period of six years from the date of declaration shall be forfeited and shall revert to the Company.

Variation of rights

If at any time the Company has more than one class of shares, subject to the Cayman Companies Law, the special rights attached to any class of shares may be varied or abrogated either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so repaid, varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding-up. To every such separate general meeting and all adjournments thereof all the provisions of the Articles relating to general meetings of the Company and to the proceedings thereat shall apply with the necessary modifications, except that the necessary quorum (other than at an adjourned meeting) shall be two persons at least holding or representing by proxy at least one-third in nominal value of the issued shares of the class and at any adjourned meeting of such holders, two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum and that any holder of shares of the class present in person or by proxy may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him.

Meetings of shareholders

Under the Cayman Companies Law, there is no distinction between annual general meetings and other general meetings. Under the Articles, the annual general meeting is required to be convened at least once in every calendar year whilst the Directors may, whenever they think fit, convene an extraordinary general meeting.

All registered shareholders of the Company are entitled to attend general meetings of the Company. Accordingly, Depositors holding Shares through the CDP would not be recognised as members of the Company, and would not have a right to attend and to vote at general meetings of the Company. In the event that Depositors wish to attend and vote at general meetings of the Company, CDP will have to appoint them as proxies, pursuant to the Articles and the Cayman Companies Law.

The Cayman Companies Law does not contain provisions as to any documentary evidence to be produced by proxies and corporate representatives. However, such provisions may be contained in the Articles. Where, for example, it is stated that the instrument of proxy must be deposited a specified number of hours before the meeting (see Article 79 of the Articles), proxies deposited after that time cannot be admitted.

Corporate representatives are different from proxies and unless specifically required by the Articles, a letter of appointment does not need to be lodged before the meeting. There are currently no such provisions in the Articles.

Limitations on non-Caymanian shareholders

There are no limitations, either under Cayman Islands law or the Articles, on the rights of non-Caymanian owners of the Company's shares to hold or vote their shares.

Access to books and records and dissemination of information

Members of a company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of a company. They will, however, have such rights as may be set out in the company's articles of association.

Under Article 44 of the Articles, the register of members of the Company shall be open to inspection by the members of the Company without charge or by any other person, upon a maximum payment of five United States Dollars (US\$5.00) (or such lesser sum specified by the Board of Directors) or, if appropriate, upon a maximum payment of ten Singapore dollars (S\$10.00) (or such lesser sum specified by the Board of Directors). The register of members including any overseas or local or other branch register of members may, after notice has been given in accordance with applicable requirements of any Designated Stock Exchange (as defined in the Articles) by any electronic means as may be accepted by the Designated Stock Exchange, be closed at such times or for such periods in each year as the Board of Directors may determine and either generally or in respect of any class of shares.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit.

There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

Article 166 of the Articles provides that no member shall be entitled to require discovery of or any information respecting any detail of the Company's trading or any matter which is or may be in the nature of a trade secret or secret process which may relate to the conduct of the business of the Company and which in the opinion of the Board of Directors it will be inexpedient in the interests of the members of the Company to communicate to the public save as may be authorised by law or required by the rules or regulations of the Designated Stock Exchange (as defined in the Articles).

Election and removal of directors

The Articles provide that the Company may from time to time by ordinary resolution, determine the maximum number of Directors and increase or reduce the number of Directors but so that the number of directors shall never be less than two. All directors must be natural persons.

The directors shall be elected or appointed in the first instance by the subscribers to the memorandum of association or by a majority of them and thereafter the Company may by ordinary resolution at any general meeting appoint any person to be a Director either as an additional Director or to fill a casual vacancy.

The Board of 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 or as an additional Director.

Each director shall retire at least once every three years. A retiring director is eligible for re-election. Any Director appointed by the Board shall retire at the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

A person who is not a retiring Director shall be eligible for election to the office of Director at any general meeting if a Shareholder intending to propose him has, at least eleven (11) clear days before the general meeting, left at the registered office of the Company a notice duly signed by the nominee, giving his consent to the nomination and signifying his candidature for the office, or the intention of such Shareholder to propose him. In the case of a person recommended by the Directors for election to the office of Director, nine (9) clear days' notice only shall be necessary. Notice of each and every candidature for election to the Board of Directors shall be served on the members of the Company at least seven (7) days prior to the general meeting at which the election is to take place.

The Articles do not provide for cumulative voting in relation to election or re-election of Directors.

Subject to the provisions of the Articles, the members may at any general meeting convened and held in accordance with the Articles, by ordinary resolution remove a Director at any time before the expiration of his period of office notwithstanding anything in the Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages under any such agreement). A vacancy on the Board of Directors created by the removal of such Director may be filled by the election or appointment by the members at the general meeting at which such Director is removed or, in the absence of such election or appointment, such general meeting may authorise the Board of Directors to appoint a Director to fill any vacancy in the number left unfilled.

There is also no requirement in the Articles or Cayman Islands law that the Directors must retire at a certain age.

Amendment of Memorandum and Articles of Association

The Articles provide that no Article shall be rescinded, altered or amended and no new Article shall be made without the prior written approval of the Designated Stock Exchange (as defined in the Articles), which includes the SGX-ST, and until the same has been approved by a special resolution of the members of the Company. A special resolution shall be required to alter the provisions of the memorandum of association of the Company or to change the name of the Company.

Copies of any special resolutions passed by the Company must be filed within fifteen days with the Registrar of Companies in the Cayman Islands.

Redemption provisions

The Shares do not have redemption rights.

Sinking fund

The Articles do not contain sinking fund provisions.

Calls on shares

Subject to the Articles and to the terms of allotment, the Board of Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (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 instalments.

If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the amount unpaid from the day appointed for payment thereof to the time of actual payment at such rate (not exceeding twenty per cent. (20%) per annum) as the Board

of Directors may determine, but the Board of Directors may in its absolute discretion waive payment of such interest wholly or in part.

The Board may, if it thinks fit, receive from any member of the Company willing to advance the same, and either in money or money's worth, all or any part of the moneys uncalled and unpaid or instalments payable upon any shares held by him and upon all or any of the moneys so advanced (until the same would, but for such advance, become presently payable) pay interest at such rate (if any) as the Board may decide.

The memorandum of association states that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them.

Discriminatory provisions against substantial shareholder

The Articles do not contain any provision discriminating against any existing or prospective holder of shares as a result of such shareholder owning a substantial number of shares save that for so long as the shares of the Company are listed on the Designated Stock Exchange (as defined in the Articles to include the SGX-ST), substantial shareholders (having the meaning ascribed to it in the Singapore Companies Act) have to disclose particulars of their interests in the Company and of any change in the percentage level of such interest. Such requirement to disclose does not apply to CDP.

Cayman Islands Share Registrar and Singapore Transfer Agent

A register of holders of the Shares will be maintained by Codan Trust Company (Cayman) Limited in the Cayman Islands, and Lim Associates (Pte) Ltd will serve as Singapore transfer agent for the Shares.

EXCHANGE CONTROLS

The following is a description of the exchange controls that exist in the jurisdictions which the Group operates in.

HONG KONG

Pursuant to Article 112 of the Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, there are no foreign exchange control policies in Hong Kong. The Hong Kong dollar is freely convertible. Profits, royalties, interest and capital can also be freely repatriated.

PRC

Please see "Appendix C - Summary of Relevant PRC Laws and Regulations" of this Prospectus.

CAYMAN ISLANDS

There are no exchange control regulations or currency restrictions in the Cayman Islands.

TAXATION

The discussion below is not intended to constitute a complete analysis of all tax consequences relating to ownership of the Shares. Prospective purchasers of the Shares should consult their own tax advisors concerning the tax consequences of their particular situations. This description is based on laws, regulations and interpretations now in effect and available as of the date of this Prospectus. The laws, regulations and interpretations, however, may change at any time, and any change could be retroactive to the date of issuance of the Shares. **These laws and regulations are also subject to various interpretations and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below. It is emphasised that neither the Company, the Directors nor any other persons involved in this Invitation accepts responsibility for any tax effects or liabilities resulting from the subscription for, holding or disposal of the Shares.**

SINGAPORE TAXATION

Scope of tax

The following discussion describes the material Singapore income tax, capital gains tax, stamp duty, estate duty and GST consequences of the subscription for, ownership and disposal of the Shares.

Income tax

General

Singapore resident taxpayers are subject to Singapore income tax on income accruing in or derived from Singapore and on foreign income received or deemed received in Singapore, subject to certain exceptions.

With effect from 1 June 2003, foreign income in the form of dividends, branch profit and service income will, however, be tax exempt if such income has been subjected to tax in the foreign jurisdiction and the headline tax rate of such foreign jurisdiction is at least 15 per cent. when the said foreign income is remitted or deemed remitted by the Singapore tax resident.

For an individual who is resident in Singapore, certain Singapore-sourced investment income derived by individuals on or after 1 January 2004 and all foreign-sourced personal income remitted or deemed remitted by Singapore resident individuals with effect from year of assessment 2005 are exempt from income tax.

A corporate entity is regarded as resident in Singapore if its business is controlled and managed in Singapore (for example, if the board of directors meets and conducts the company's business in Singapore). An individual is regarded as resident in Singapore if the individual is physically present in Singapore or exercises an employment in Singapore (other than as a director of a company) for 183 days or more in a calendar year, or if the individual resides in Singapore.

Non-resident corporate taxpayers are subject to Singapore income tax on income accruing in or derived from Singapore, and on foreign income received or deemed received in Singapore, subject to certain exceptions. Non-resident individuals, subject to certain exceptions, are subject to Singapore income tax only on the income accruing in or derived from Singapore.

The corporate tax rate in Singapore for the year of assessment 2005 (i.e. financial year ending in 2004) is 20 per cent.. In addition, 75 per cent. of the first S\$10,000 of a company's chargeable income and 50 per cent. of up to the next S\$90,000 of a company's chargeable income is exempt from corporate tax. The remaining chargeable income (after the partial tax exemption) is taxed at 20 per cent. for year of assessment 2005. The above partial tax exemption is not applicable to Singapore dividends received by companies.

For a resident individual, the rate of tax will vary according to the individual's circumstances but is subject to a current maximum rate of 20 per cent. with effect from the year of assessment 2007 i.e. calendar year 2006.

Dividend distributions

Dividends paid by a company which is resident outside Singapore would be considered as foreign sourced dividends. Such foreign-sourced dividends paid to any individual shareholder will not be subject to tax in Singapore.

Dividends paid by a company which is resident outside Singapore to corporate taxpayers in Singapore will only be subject to tax to the extent that they are received or deemed received in Singapore. Where companies which are not resident in Singapore have activities in Singapore, dividends received in Singapore through the CDP by such investors may be subject to tax in Singapore if the dividends are in respect of investments made through their Singapore-based activities or the dividends are otherwise connected with their Singapore-based activities.

The foreign income exemption provisions, as stated in the foregoing paragraph, are not applicable to dividend distributions from the Shares made to resident corporate taxpayers, unless the dividend distributions are made out of specific income that have been subjected to tax in the Cayman Islands (see “Cayman Islands Taxation” section below).

Gains on disposal of the Shares

Singapore does not impose tax on capital gains. However, there are no specific laws or regulations which deal with the characterization of capital gains, hence, gains may be construed to be of an income nature and subject to tax especially if they arise from activities which the Inland Revenue Authority of Singapore (“IRAS”) regards as the carrying on of a trade in Singapore.

Any profits from the disposal of the Shares are not taxable in Singapore unless the seller is regarded as having derived these gains of an income nature, in which case, the disposal profits would be taxable.

Stamp duty

There is no stamp duty payable on the subscription of the Shares.

In the event that a register of Shares is kept in Singapore and where an instrument of transfer is executed in respect of Shares registered in such register, stamp duty may be payable on such instrument of transfer at the rate of S\$2 for every S\$1,000 market value of the Shares registered in Singapore.

The subscriber is liable for stamp duty, unless there is an agreement to the contrary. No stamp duty is payable if no instrument of transfer is executed or the instrument of transfer is executed outside Singapore. However, stamp duty may be payable if the instrument of transfer which is executed outside Singapore is received in Singapore.

The above stamp duty is not applicable to electronic transfers of the Shares through the CDP.

Estate duty

Singapore estate duty is imposed on the value of immovable property situated in Singapore owned by individuals who are not domiciled in Singapore, subject to specific exemption limits. Movable assets of non-domiciles are exempted from estate duty. Singapore estate duty is imposed on the value of most immovable property situated in Singapore and on most movable property, wherever it may be, owned by individuals who are domiciled in Singapore, subject to specific exemption limits.

Accordingly, the Shares held by an individual domiciled in Singapore are subject to Singapore estate duty upon such individual's death. Singapore estate duty is payable to the extent that the value of the Shares aggregated with any other assets subject to Singapore estate duty exceeds S\$600,000. Unless other exemptions apply to the other assets, for example, the separate exemption limit for residential properties, any excess beyond S\$600,000 will be taxed at 5 per cent. on the first S\$12,000,000 of the individual's Singapore chargeable assets and thereafter at 10 per cent.. It is also proposed in the 2005 Budget that for death from 1 January 2006, the government will allow the estate duty paid on the earlier death to be deducted from the estate duty payable on the same assets assessed in the beneficiaries' subsequent deaths. The relief will start at 100 per cent. if the deaths occur within 6 months of each other, graduating to the full estate duty payable.

Individuals should consult their own tax advisers regarding the Singapore estate duty consequences of their ownership of the Shares.

Goods and services tax (“GST”)

The sale of shares to Singapore investors or through SGX-ST is exempt from GST. However, this exemption does not apply to related share transaction costs such as brokerage commissions and clearing fees. Brokerage commissions charged by a GST registered broker and clearing fees arising from shares traded through SGX-ST will be subject to 5 per cent. GST in respect of transactions undertaken by Singapore investors and is not subject to any GST in respect of transactions undertaken by overseas investors.

HONG KONG TAXATION

Profits Tax

Hong Kong profits tax is chargeable on every persons, including corporations, partnerships, trustees and bodies of persons carrying on any trade, profession or business in Hong Kong in respect of his/its assessable profits (excluding profits arising from the sale of capital assets) arising in or derived from Hong Kong from the conduct of such trade, profession or business. Non-residents in receipt of such profits are also subject to profits tax. The current profits tax rate is 17.5 per cent. for corporations while sole proprietorships, partnerships and other unincorporated businesses are taxed at a rate of 16 per cent.

Stamp Duty

Stamp duty is payable on contract note for sale or purchase of any Hong Kong stock (i.e. stock the transfer of which is required to be registered in Hong Kong) at the rate of 0.2 per cent. of the consideration or, if higher, the value of the Hong Kong stock being sold or transferred. Unless otherwise agreed, this is payable half by the vendor and half by the purchaser.

Estate Duty

Under the Estate Duty Ordinance, (Chapter 111 of the Laws of Hong Kong), Hong Kong estate duty is imposed on the total value of the property situated in Hong Kong which passes or is deemed to pass in connection with a person’s death which occurs before 11 February 2006. Pursuant to the Estate Duty Ordinance, property situated outside Hong Kong and any share or other interest of a deceased member of a company registered in a branch register kept out of Hong Kong under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) will be exempt from estate duty. Therefore, if the branch register of the Company is kept out of Hong Kong, the Shares will not be subject to estate duty of Hong Kong. Under the Revenue (Abolition of Estate Duty) Ordinance 2005, which came into effect on 11 February 2006, estate of persons who die on or after 11 February 2006 will not be subject to estate duty.

Other Taxes

Currently, there is no capital gains tax or turnover or sales taxes in Hong Kong.

UNITED STATES FEDERAL INCOME TAXATION

To ensure compliance with U.S. Treasury Department Circular 230, investors in the Shares are hereby notified that: (a) any discussion of U.S. Federal tax issues in this document is not intended or written by the Company to be relied upon, and cannot be relied upon by investors in the Shares, for the purpose of avoiding penalties that may be imposed on investors in the Shares under the Code, (b) such discussion is written in connection with the promotion or marketing of the transactions or matters addressed herein by the Company and the dealers, and (c) investors in the Shares should seek advice based on their particular circumstances from their own independent tax advisors. U.S. counsel does not intend to be, and is not, engaged in the promotion or marketing of the transactions or matters described in this Memorandum, and no inference to the contrary shall be implied by reason of the U.S. tax discussion set forth herein.

The following summary, subject to the limitations therein, describes certain material United States federal income tax consequences of purchasing, holding and disposing of the Shares. This discussion applies only to beneficial owners of the Shares that are “U.S. Holders,” as defined below. This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, or the “Code,” its legislative history, existing final, temporary and proposed Treasury Regulations, administrative pronouncements by the United States Internal Revenue Service, or IRS, and judicial decisions, all as currently in effect and all of which are subject to change (possibly on a retroactive basis) and to different interpretations. The United States federal income tax (on sequences of investing in Shares in a particular situation could differ from those described below.

This summary does not purport to address all United States federal income tax consequences that may be relevant to a particular holder. Investors are urged to consult their own tax advisors regarding their specific tax situation. The discussion applies only to U.S. Holders who hold the Shares as “capital assets” (generally, property held for investment) under the Code and does not address the tax consequences that may be relevant to U.S. Holders in special tax situations including, for example:

- insurance companies;
- tax-exempt organizations;
- broker-dealers;
- traders in securities that elect to mark to market;
- banks or other financial institutions;
- U.S. Holders whose functional currency is not the United States dollar;
- United States expatriates;
- U.S. Holders that hold the Shares as part of a hedge, straddle, conversion or other integrated transaction; or
- U.S. Holders that own, directly, indirectly, or constructively, 10% or more of the total combined voting power of the Shares.

Except where specifically described below, this discussion assumes that the Company is not a passive foreign investment company (“PFIC”), for United States federal income tax purposes. Further, this discussion does not address the alternative minimum tax consequences of holding the Shares or the indirect consequences to holders of equity interests in partnerships or other entities that own the Shares. Finally, this discussion does not address the state, local and non-United States tax consequences of purchasing, holding and disposing of the Shares.

Investors should consult their own tax advisor regarding the United States federal, state, local and foreign income and other tax consequences of purchasing, owning, and disposing of the Shares in their particular circumstances.

An investor is a “U.S. Holder” if he, she or it is a beneficial owner of the Shares and is for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, or any other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to United States federal income tax regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of the trust (or otherwise if the trust has a valid election in effect under current Treasury regulations to be treated as a United States person).

If a partnership holds the Shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner of a partnership holding the Shares should consult its own tax advisor.

Distributions on the Shares

Cash distributions (excluding distributions in redemption of the Shares that are treated as exchanges or sales under the Code) made by the Company to or for the account of a U.S. Holder with respect to the Shares generally will be taxable to such U.S. Holder as ordinary dividend income when such distribution is paid, to the extent the distributions is made from the Company’s current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. As used below, the term “dividend” means a distribution that constitutes a dividend for U.S. federal income tax purposes.

Dividends paid by the Company generally will not be eligible for the dividends received deduction available under the Code to certain United States corporation shareholders. In addition, dividends paid by the Company will not represent “qualified dividend income” and therefore will be subject to United States federal income tax at the regular rates applicable to ordinary income. Dividends paid on the Shares will generally constitute income from sources outside the United States for foreign tax credit purposes.

The U.S. dollar value of any cash distribution paid in currency other than U.S. dollars (“non-U.S. currency”) will equal the U.S. dollar value of the distribution, calculated by reference to the exchange rate in effect at the time the distribution is received by the U.S. Holder, regardless of whether the payment is in fact converted to U.S. dollars at that time. A U.S. Holder should not recognise any foreign currency gain or loss in respect of such distribution if such non-U.S. currency is converted into U.S. dollars on the date received. If the non-U.S. currency is not converted into U.S. dollars on the date of receipt, however, gain or loss may be recognised upon a subsequent sale or other disposition of the non-U.S. currency. Such foreign currency gain or loss, if any, will generally be United States source ordinary income or loss.

Sale or exchange of the Shares

A U.S. Holder generally will recognise capital gain or loss upon the sale, exchange or other taxable disposition of the Shares measured by the difference between the amount realised and the U.S. Holder’s adjusted tax basis in the Shares. Any gain or loss will be long-term capital gain or loss if the Shares have been held for more than one year. Long-term capital gains of certain U.S. holders (including individuals) in a taxable year excluding 1 January 2011 are eligible for reduced rates of United States federal income taxation. The deductibility of capital losses is subject to certain limitations under the Code.

A U.S. Holder that receives non-U.S. currency upon the sale, exchange or other taxable disposition of the Shares will realise an amount equal to the U.S. dollar value of such non-U.S. currency on the date of the sale or other disposition (or in the case of cash-basis and electing accrual basis taxpayers, the settlement date). A U.S. Holder should not recognise any foreign currency gain or loss in respect of any non-U.S. currency received upon the sale, exchange or other taxable disposition of the Shares if such non-U.S. currency is converted into U.S. dollars on the date received. If the non-U.S. currency is not converted into U.S. dollars on the date of receipt, however, gain or loss may be recognised upon a subsequent sale or other disposition of the non-U.S. currency. Such foreign currency gain or loss, if any, will generally be United States source ordinary income or loss for foreign tax credit limitation purposes. The rules and limitations with respect to foreign tax credits are complicated, and investors should consult their own tax advisers regarding the availability of foreign tax credits to them in their circumstances.

Passive foreign investment company rules

In general, a foreign corporation is a PFIC with respect to a U.S. Holder if, for any taxable year in which the U.S. Holder holds stock in the foreign corporation, at least 75% of its gross income is passive income or at least 50% of the value of its assets (determined on the basis of a quarterly average) produce passive income or are held for the production of passive income. For this purpose, passive income generally includes, among other things, dividends, interest, rents, royalties and gains from the disposition of investment assets (subject to various exceptions). Based upon the nature of the Company’s current and projected income, assets and activities, the Company does not expect the Shares to be considered shares of a PFIC for United States federal income tax purposes. However, the determination of whether the Shares constitute shares of a PFIC must be made at the end of each taxable year based upon the nature of the Company’s income and assets at that time, and involves the application and interpretation of statutory and regulatory rules that are not entirely clear. Accordingly, no assurance can be given that the Company will not be classified as a PFIC for the present or any future taxable year.

If, contrary to the discussion above, the Company is treated as a PFIC, a U.S. Holder would be subject to special rules (and may be subject to increased tax liability and form filing requirements) with respect to (a) any gain realised on the sale or other disposition of the Shares, and (b) any “excess distribution” made by the Company to the U.S. Holder (generally, any distribution during a taxable year in which distributions to the U.S. Holder of the Shares exceed 125% of the average annual distributions the U.S. Holder received on the Shares during the preceding three taxable years or, if shorter, the U.S. Holder’s holding period for the Shares). Under those rules, (a) the gain or excess distribution would be allocated ratably over the U.S. Holder’s holding period for the Shares, (b) the amount allocated to the taxable year in which the gain or excess distribution is realised and to taxable years before the first day on which the Company became a PFIC would be taxable as ordinary income,

(c) the amount allocated to each prior year in which the Company were a PFIC would be subject to United States federal income tax at the highest tax rate in effect for that year and (d) the interest charge generally applicable to underpayments of United States federal income tax would be imposed in respect of the tax attributable to each prior year in which the Company were a PFIC.

A U.S. Holder who owns Shares during any taxable year the Company is a PFIC must file IRS Form 8621. In general, if the Company is treated as a PFIC, the rules described above can be avoided by a U.S. Holder that elects to be subject to a mark-to-market regime for stock in a PFIC. A U.S. Holder may elect mark-to-market treatment for its Shares, provided the Shares, for purposes of the rules, constitute “marketable stock” as defined in Treasury Regulations. It is not clear whether the Shares would qualify as “marketable stock.” If the Shares were “marketable stock” for this purpose, a U.S. Holder electing the mark-to-market regime generally would compute gain or loss at the end of each taxable year as if the Shares had been sold at fair market value. Any gain recognised by the U.S. Holder under mark-to-market treatment, or on an actual sale, would be treated as ordinary income, and the U.S. Holder would be allowed an ordinary deduction for any decrease in the value of Shares as of the end of any taxable year, and for any loss recognised on an actual sale, but only to the extent, in each case, of previously included market-to-market income not offset by previously deducted decreases in value. Any loss on an actual sale of Shares would be a capital loss to the extent in excess of previously included mark-to-market income not offset by previously deducted decreases in value. A U.S. Holder’s tax basis in Shares would increase or decrease by gain or loss taken into account under the mark-to-market regime. A market-to-market election is generally irrevocable.

Backup withholding and information reporting

In general, dividends on the Shares, and payments of the proceeds of a sale, exchange or other disposition of the Shares, paid within the United States or through certain United States related financial intermediaries to a U.S. Holder are subject to information reporting and may be subject to backup withholding tax unless the holder (i) is a corporation or other exempt recipient or (ii) provides an accurate taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred.

Backup withholding is not an additional tax. A U.S. Holder generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed his, her or its United States federal income tax liability by filing a refund claim with the IRS. The amount of any backup withholding tax from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder’s United States federal income tax liability, provided that the required information is furnished to the IRS.

CAYMAN ISLANDS TAXATION

The Company is incorporated in the Cayman Islands. Dividends remitted to shareholders resident outside the Cayman Islands will not be subject to Cayman Islands withholding tax. There are no reciprocal tax treaties between the Cayman Islands and Singapore. Further details are set out under “Appendix B—Summary of Cayman Islands Company Law” of this Prospectus.

CLEARANCE AND SETTLEMENT

Upon listing and quotation on SGX-ST, the Shares will be traded under the book-entry settlement system of the CDP, and all dealings in and transactions of the Shares through SGX-ST will be effected in accordance with the terms and conditions for the operation of securities accounts with the CDP, as amended from time to time.

The Shares will be registered in the name of CDP or its nominee and held by CDP for and on behalf of persons who maintain, either directly or through depository agents, securities accounts with CDP. Persons holding the Shares through direct securities accounts and depository agents in the Depository Register maintained by the CDP will not be treated, under the Cayman Companies Law and the Articles, as members of the Company in respect of the number of the Shares credited to their respective securities accounts. The Depositors and Depository Agents on whose behalf CDP holds Shares may not be accorded the full rights of membership such as voting rights, the right to appoint proxies, or the right to receive shareholders circulars, proxy forms, annual reports, prospectuses and takeover documents. In such an event, Depositors and Depository Agents will be accorded only such rights as CDP may make available to them pursuant to CDP's terms and conditions to act as depository for foreign securities.

Persons holding the Shares in securities account with CDP may withdraw the number of Shares they own from the book-entry settlement system in the form of physical share certificates. Such share certificates will not, however, be valid for delivery pursuant to trades transacted on SGX-ST, although they will be *prima facie* evidence of title and may be transferred in accordance with the Articles. A fee of S\$10.00 for each withdrawal of 1,000 Shares or less and a fee of S\$25.00 for each withdrawal of more than 1,000 Shares is payable upon withdrawing the Shares from the book-entry settlement system and obtaining physical share certificates. In addition, a fee of S\$2.00 or such other amount as the Directors may decide, is payable to the share registrar for each share certificate issued and a stamp duty of S\$10.00 may also be payable where the Shares are withdrawn in the name of the person withdrawing the Shares or S\$0.20 per S\$100.00 or part thereof of the last-transacted price where the Shares are withdrawn in the name of a third party. Persons holding physical share certificates who wish to trade on SGX-ST must deposit with CDP their share certificates together with the duly executed and stamped instruments of transfer in favour of CDP, and have their respective securities accounts credited with the number of Shares deposited before they can effect the desired trades. A fee of S\$10.00 and stamp duty of S\$10.00 may be payable upon the deposit of each instrument of transfer with CDP.

Transactions in the Shares under the book-entry settlement system will be reflected by the seller's securities account being debited with the number of Shares sold and the buyer's securities account being credited with the number of Shares acquired. No transfer of stamp duty is currently payable for the Shares that are settled on a book-entry basis.

A Singapore clearing fee for trades in the Shares on the SGX-ST is payable at the rate of 0.05 per cent. of the transaction value subject to a maximum of S\$200.00 per transaction. The clearing fee, instrument of transfer deposit fee and share withdrawal fee may be subject to Singapore Goods and Services Tax at the prevailing rate of 5 per cent.

Dealings of the Shares will be carried out in Singapore dollars and will be effected for settlement on CDP on a scripless basis. Settlement of trades on a normal "ready" basis on the SGX-ST generally takes place on the third Market Day following the transaction date, and payment for the securities is generally settled on the following business day. CDP holds securities on behalf of investors in securities accounts. An investor may open a direct account with CDP or a sub-account with a CDP agent. The CDP agent may be a member company of the SGX-ST, bank, merchant bank or trust company.

GENERAL AND STATUTORY INFORMATION

INFORMATION ON DIRECTORS AND EXECUTIVE OFFICERS

1. The name, age, address, principal occupation and business and working experience of each of the Directors and Executive Officers are set out in “Directors and Executive Officers” of this Prospectus.
2. The present principal directorships and past principal directorships other than directorships held in the Company (held in the five years preceding the Latest Practicable Date) of each of the Directors and Executive Officers, are as follows:

<u>Name</u>	<u>Present Principal Directorships</u>	<u>Past Principal Directorships</u>
Hsu, Chen	Dongguan Anco Dongguan Hsu Fu Chi Dongguan Hsu Chi Hsu Fu Chi Holdings Hsu Fu Chi (Hong Kong)	nil
Hu, Chia-Hsun	Central Human Resource & Management Co., Ltd. ITAI Engineering & Construction Co. Ltd	nil
Hsu, Hang	Dongguan Anco Dongguan Hsu Fu Chi Dongguan Hsu Chi Hsu Fu Chi Holdings	nil
Hsu, Keng	Dongguan Anco Dongguan Hsu Fu Chi Dongguan Hsu Chi Hsu Fu Chi Holdings	nil
Hsu, Tien	Hsu Fu Chi Holdings	nil
Hoon Wee Teng, Will	Hsu Fu Chi Holdings United Test and Assembly Center Ltd AEM-Evertech Holdings Ltd Cityneon Holdings Limited Regional Investment Company Limited Transpac Capital RIC Management Pte Ltd Foodstar Holdings Pte Ltd	Magician Industries (Holdings) Limited Eastern Multimedia Company Limited Transtech Venture Management Pte Ltd
John Lim Kok Min	Axis Systems Holdings Ltd Ned Advisory Services Pte. Ltd. Agrifood Technologies Pte Ltd LMC Seychelles Ltd LMA North America Inc LMA International N.V. The Laryngeal Mask Company (Singapore) Pte. Ltd. Pan-United Marine Limited C.K. Tang Limited Singapore Food Industries Limited Integrity Media Asia Pte Ltd Senoko Power Limited Building and Construction Authority NTUC Fairprice Co-operative Ltd Singapore Institute of Directors Boustead Singapore Limited	Singapore International Chamber of Commerce Pan-United Corporation Ltd United Cement Pte Ltd Temasek Polytechnic Agri-food and Veterinary Authority SMA Services Pte. Ltd. TP Innovation Holdings Pte Ltd

<u>Name</u>	<u>Present Principal Directorships</u>	<u>Past Principal Directorships</u>
Lim Hock San	Keppel Corporation Limited Interra Resources Limited Health Sciences Authority Ascendas Pte Ltd United Test and Assembly Center Ltd Gallant Venture Ltd. United Industrial Corporation Limited Singapore Land Limited	Advanced Materials Technologies Pte Ltd. Civil Aviation Authority of Singapore Keppel Tat Lee Finance Ltd (now known as KTF Limited) Singapore Soviet Shipping Co Private Ltd Yongnam Holdings Limited
Lam Khin Khui	Rotary Engineering Limited Thai Rotary Engineering Ltd Egon Zehnder International Pte Ltd	nil
Heng Hang Siong	JKYM Trading Pte. Ltd. Fujian Juan Kuang Metal Industrial Co. Ltd	Nextec Applications Pte Ltd
Guo, Qiang	nil	nil
Ma, Hao	nil	nil
Wang, Chang Han	nil	nil
Yang, Kun-Ti	nil	nil

3. Save as disclosed below, none of the Directors, Executive Officers or Mr. Hsu, Pu:-

- (i) has had, during the last ten years, an application or a petition under any bankruptcy laws of any jurisdiction filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within two years from the date he ceased to be a partner;
- (ii) has had, during the last ten years, an application or a petition under any law of any jurisdiction filed against an entity (not being a partnership) of which he was a director or an equivalent person or key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within two years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding-up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency;

Mr. Lim Hock San was a director of Singapore Soviet Shipping Co. Private Ltd. (“SSSCPL”) since 28 April 1992. On 10 March 2003, SSSCPL was put into voluntary creditors’ liquidation. The liquidation process is still ongoing. SSSCPL is an associated company of United Industrial Corporation Limited and was directly managed by two joint managing directors. Mr. Lim Hock San was not involved in the day-to-day management of SSSCPL.

- (iii) has had any unsatisfied judgments against him;
- (iv) has been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose;
- (v) has been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware of) for such breach;
- (vi) has had, at any time during the last ten years, judgement entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware of) involving an allegation of fraud, misrepresentation or dishonesty on his part;
- (vii) has been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust;
- (viii) has been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust;

- (ix) has been the subject of any order, judgement or ruling of any court, tribunal or governmental body permanently or temporarily enjoining him from engaging in any type of business practice or activity;
- (x) has, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of —
 - (a) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere;
 - (b) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere;
 - (c) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or
 - (d) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere,
 in connection with any matter occurring or arising during the period when he was so concerned with the entity or business trust;
- (xi) has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere.

Mr. Hoon Wee Teng, Will was appointed as a non-executive director of Magician Industries (Holdings) Limited (“Magician Industries”), a company incorporated outside of Singapore in which Transpac Capital has minority interests, on 18 October 2004 but was not involved in any of the operations of this company. Since Transpac Capital experienced difficulties in obtaining timely information on the effective date of his appointment from Magician Industries, Transpac Capital notified the MAS of his appointment a week later than the notice period of two weeks allowed by the relevant regulations under the SFA. Although Transpac Capital was reminded that MAS take a serious view of violations of the SFA, MAS did not take further action against Mr. Hoon or Transpac Capital (the former being licensed as a representative and latter as the principal under the SFA) after taking into consideration the difficulties faced by Transpac Capital and the documentary evidence furnished by Transpac Capital on the actions taken in its attempt to comply with the notice requirements.

- 4. There is no option to subscribe for or purchase any securities of the Company or any of its subsidiaries, or the right to be given an option to subscribe for or purchase any securities of the Company or any of its subsidiaries.
- 5. There is no arrangement which involves the employees of the Company, the directors or employees of a subsidiary or an associated company of the Company, in the capital of the Company that involves the issue or grant of options or shares or any other securities of the Company.

SHARE CAPITAL

- 6. As of the date of this Prospectus, there is only one class of shares in the capital of the Company. The rights and privileges attached to the Shares are stated in the Articles.

7. Save as disclosed below and in “Share Capital” and “Restructuring Exercise” of this Prospectus, there were no changes in the issued share capital of the Company and its subsidiaries within the three years preceding the Latest Practicable Date.

(a) Dongguan Hsu Chi⁽¹⁾

<u>Date of increase of registered capital</u>	<u>Increase in registered capital</u>	<u>Consideration</u>
9 July, 2004	HK\$1,229,000	HK\$1,229,000 in equipment
9 July, 2004	HK\$1,849,000	HK\$1,849,000 in equipment
24 August, 2004	HK\$8,045,500	HK\$8,045,500 in equipment
17 November, 2004	HK\$3,160,000	HK\$3,160,000 in equipment
14 December, 2004	HK\$2,100,000	HK\$2,100,000 in equipment
14 December, 2004	HK\$1,832,000	HK\$1,832,000 in equipment
14 December, 2004	HK\$3,300,000	HK\$3,300,000 in equipment
14 December, 2004	HK\$14,000	HK\$14,000 in equipment
25 May, 2005	HK\$8,153,000	HK\$8,153,000 in equipment
8 July, 2005	HK\$10,492,000	HK\$10,492,000 in equipment
10 August, 2005	HK\$4,860,000	HK\$4,860,000 in equipment
6 September, 2005	HK\$2,430,000	HK\$2,430,000 in equipment
9 November, 2005	HK\$190,000,000	RMB198,075,000 in cash
12 October, 2005	HK\$846,000	HK\$846,000 in equipment
12 October, 2005	HK\$576,000	HK\$576,000 in equipment
12 October, 2005	HK\$157,700	HK\$157,700 in equipment
12 October, 2005	HK\$633,500	HK\$633,500 in equipment
10 November, 2005	HK\$1,509,303	HK\$1,509,303 in equipment
11 November, 2005	HK\$784,500	HK\$784,500 in equipment
11 November, 2005	HK\$188,000	HK\$188,000 in equipment
11 November, 2005	HK\$73,200	HK\$73,200 in equipment
14 November, 2005	HK\$2,180,000	HK\$2,180,000 in equipment

Notes:

(1) Dongguan Hsu Chi is classified as a Wholly Foreign Owned Enterprise under the PRC law and is not limited by shares.

(b) Hsu Fu Chi Foods

<u>Date of allotment</u>	<u>Number of shares allotted</u>	<u>Consideration</u>
17 July 2006	2	S\$2 in cash

There has been no change in the voting rights attached to the shares of the Company and its subsidiaries in the three years preceding the Latest Practicable Date.

8. Save as disclosed above and in “Share Capital” and “Restructuring Exercise” of this Prospectus, no shares in the Company or any of its subsidiaries have been issued for a consideration other than cash, during the three years preceding the Latest Practicable Date.
9. A summary of the relevant provisions of the Articles relating to, inter alia, a Director’s power to vote on remuneration, voting rights on proposals, arrangements or contracts in which Directors are interested, borrowing powers of the Directors, the rights, preferences and restrictions attached to each class of Shares of the Company are set out in “Appendix A—Summary of Memorandum of Association and Selected Articles of the Company” of this Prospectus.

MATERIAL CONTRACTS

10. No material contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and its subsidiaries within the two years before the date of lodgment of this Prospectus.

MANAGEMENT, UNDERWRITING AND PLACEMENT ARRANGEMENTS

11. The Placement

Cazenove and the Company are expected to enter into the Placing Underwriting Agreement, under which Cazenove is expected to agree, subject to the terms and conditions set forth in that agreement, to subscribe for or procure the subscription for the Invitation Shares being offered in the Placement. The Placing Underwriting Agreement may be terminated pursuant to the terms thereof, at any time before dealings in the Invitation Shares first commence on the SGX-ST, upon the occurrence of certain events, including, amongst other things, certain force majeure events. The closing of the Invitation is conditional upon, among other things, the closing of the transactions contemplated by the Placing Underwriting Agreement. Cazenove shall be at liberty at its own expense to make sub-underwriting arrangements in respect of its obligations under the Placing Underwriting Agreement, upon such terms and conditions as it deems fit.

Subject to certain conditions, the Company will agree to indemnify Cazenove against certain liabilities, including liabilities under the U.S. Securities Act. The Company will also agree to reimburse Cazenove for certain expenses incurred in connection with the Invitation.

12. The Public Offer Underwriting Agreement

The Company has entered into a Public Offer Underwriting Agreement with Cazenove dated the date of this Prospectus whereby Cazenove has agreed, subject to the terms and conditions of the Public Offer Underwriting Agreement, to subscribe for or procure subscription for Shares in the Public Offer. The Company has agreed to indemnify Cazenove against certain liabilities. The closing under the Placing Underwriting Agreement and the closing under the Public Offer Underwriting Agreement are conditional on one another.

MISCELLANEOUS

13. There have been no public takeover offers by a third party in respect of the Shares or by the Company in respect of the shares of another corporation or the units of a business trust, which has occurred between the beginning of FY 2006 and the Latest Practicable Date.
14. No expert named in this Prospectus, (i) is employed on a contingent basis by the Company or its subsidiary, (ii) has a material interest, whether direct or indirect, in the shares of the Company or its subsidiaries, or (iii) has a material economic interest, whether direct or indirect, in the Company, including an interest in the success of the Invitation.
15. Application monies received by the Company in respect of successful applications (including successful applications which are subsequently rejected) will be placed in a separate non-interest bearing account with DBS Bank Ltd (the "Receiving Bank"). In the ordinary course of business, the Receiving Bank will deploy these monies in the interbank money market. All profits derived from the deployment of such monies will accrue to the Receiving Bank. Any refund of all or part of the application monies to unsuccessful or partially successful applicants will be made without any interest or any share of revenue or any other benefit arising therefrom.
16. Save as disclosed in "Business - Prospects and Trends" and "Management's Discussion and Analysis of Financial Condition - Liquidity and Capital Resources" of this Prospectus, the Directors are not aware of any event which has occurred since 30 June 2006 and up to the Latest Practicable Date which may have a material effect on the financial position and results of the Group.
17. The Board intends to recommend Ernst & Young for appointment as Auditors of the Group for the financial year ending 30 June 2007 and the financial year ending 30 June 2008.

INDEPENDENT AUDITORS AND REPORTING ACCOUNTANTS

18. For the purpose of complying with the SFA only, Ernst & Young has given, and has not withdrawn, its written consent to the issue of this Prospectus with the inclusion herein of all references to (i) its name and (ii) "Report from the auditors in relation to the audited combined financial statements of Hsu Fu Chi International Limited for years ended 30 June 2004, 2005 and 2006" in the form and context in which they are included in this Prospectus. A written consent under the SFA is different from a consent filed with the U.S. Securities and Exchange Commission under Section 7 of the U.S. Securities Act, which is applicable only to transactions involving securities registered under the U.S. Securities Act. As the shares in the Offering have not and will not be registered under the U.S. Securities Act, Ernst & Young has not filed nor will issue a consent under Section 7 of the U.S. Securities Act.

SOLE GLOBAL COORDINATOR, SOLE BOOKRUNNER, SOLE SPONSOR, LEAD MANAGER AND UNDERWRITER IN RELATION TO THE INVITATION

19. Cazenove, who is named as Sole Global Coordinator, Sole Bookrunner, Sole Sponsor, Lead Manager and Underwriter in relation to the Invitation, has given, and has not withdrawn, its written consent to being named in this Prospectus as Sole Global Coordinator, Sole Bookrunner, Sole Sponsor, Lead Manager and Underwriter in relation to the Invitation.

LEGAL ADVISERS

20. Singapore

- (a) Allen & Gledhill has acted as Singapore legal advisers to the Company in relation to the Invitation in Singapore. Allen & Gledhill has provided advice in relation to Singapore law with respect to the Invitation in Singapore and the Prospectus. Allen & Gledhill has not advised in relation to the laws of any other jurisdiction, including PRC, the Cayman Islands and the United States.

Allen & Gledhill has not authorised or caused the issue of the Prospectus and does not make or purport to make, any statement (a) that is included in the Prospectus, or (b) on which a statement made in the Prospectus is based and, to the maximum extent permitted by law, expressly disclaim and take no responsibility for any liability to any person which is based on, or arises out of, the statements, information or opinions in this Prospectus.

- (b) Stamford Law Corporation has acted as Singapore legal advisers to the Sole Global Coordinator, Sole Bookrunner, Sole Sponsor, Lead Manager and Underwriter in relation to the Invitation. Stamford Law Corporation has provided advice in relation to Singapore law with respect to the Invitation in Singapore and the Prospectus. Stamford Law Corporation has not advised in relation to the laws of any other jurisdiction, including PRC, the Cayman Islands and the United States.

Stamford Law Corporation has not authorised or caused the issue of the Prospectus and does not make or purport to make, any statement (a) that is included in the Prospectus, or (b) on which a statement made in the Prospectus is based and, to the maximum extent permitted by law, expressly disclaim and take no responsibility for any liability to any person which is based on, or arises out of, the statements, information or opinions in this Prospectus.

21. PRC

Jingtian & Gongcheng has acted as PRC legal advisers to the Company in relation to the Invitation. Jingtian & Gongcheng has provided advice in relation to PRC law with respect to the Invitation and the Prospectus. Jingtian & Gongcheng has not advised in relation to the laws of any other jurisdiction, including Singapore, the Cayman Islands and the United States.

22. Cayman Islands

Conyers, Dill & Pearman has acted as Cayman Islands legal advisers to the Company in relation to the Invitation. Conyers, Dill & Pearman has provided advice in relation to Cayman Islands law with respect to the Invitation and the Prospectus. Conyers, Dill & Pearman has not advised in relation to the laws of any other jurisdiction, including Singapore, PRC and the United States.

Conyers, Dill & Pearman has not authorised or caused the issue of the Prospectus and does not make or purport to make, any statement (a) that is included in the Prospectus, or (b) on which a statement made in the Prospectus is based and, to the maximum extent permitted by law, expressly disclaim and take no responsibility for any liability to any person which is based on, or arises out of, the statements, information or opinions in this Prospectus.

23. United States

Jones Day has acted as United States legal advisers to the Sole Global Coordinator, Sole Bookrunner, Sole Sponsor, Lead Manager and Underwriter in relation to the Invitation. Jones Day has provided advice in relation to United States federal law with respect to the Invitation and the Prospectus. Jones Day has not advised in relation to the laws of any other jurisdiction, including Singapore, PRC and the Cayman Islands.

Jones Day has not authorised or caused the issue of the Prospectus and does not make or purport to make, any statement (a) that is included in the Prospectus, or (b) on which a statement made in the Prospectus is based and, to the maximum extent permitted by law, expressly disclaim and take no responsibility for any liability to any person which is based on, or arises out of, the statements, information or opinions in this Prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

24. The following documents or copies thereof may be inspected at 6 Battery Road, #39-01 Singapore 049909 or such other office as may be announced by the Company after the Listing Date during normal business hours for a period of six months from the date of registration by the Authority of this Prospectus:-

- (a) the Memorandum of Association and Articles of the Company;
- (b) Audited Combined Financial Statements of Hsu Fu Chi International Limited for Years ended 30 June 2004, 2005 and 2006;
- (c) audited accounts, where available, of the Group's subsidiaries for the three most recent completed financial years;
- (d) the service agreement referred to in "Directors and Executive Officers—Service Agreements"; and
- (e) the letters of consent referred to in "General and Statutory Information—Independent Auditors and Reporting Accountants", "General and Statutory Information—Sole Global Coordinator, Sole Bookrunner, Sole Sponsor, Lead Manager and Underwriter in relation to the Invitation", and "General and Statutory Information—Consents" of this Prospectus.

CONSENTS

- 25. Jingtian & Gongcheng has given, and has not withdrawn, its written consent to the issue of this Prospectus with the inclusion therein of its name and all references thereto, and the paragraphs attributable to Jingtian & Gongcheng in the sections entitled "Restructuring Exercise" and "Business—Properties".
- 26. Euromonitor International (Asia) Pte Ltd has given, and has not withdrawn, its written consent to the issue of this Prospectus with the inclusion therein of (i) its name and all references thereto; and (ii) the sections entitled "Industry" and "General and Statutory Information—Citation of Sources".

SOURCES

- 27. This Prospectus contains data and forecast derived from various sources published by Bloomberg LP and National Bureau of Statistics of the People's Republic of China that are publicly available. The Directors have confirmed that the data attributed to Bloomberg LP and the National Bureau of Statistics of the People's Republic of China in this Prospectus have been extracted from the cited sources in their proper form and context. The Directors reasonably believe that the sources listed are reliable in the context of the information extracted. The Directors have not verified the accuracy of the information extracted from nor have they obtained the specific consents of Bloomberg LP and the National Bureau of Statistics of the People's Republic of China for the inclusion of such data in this Prospectus. Accordingly, Bloomberg LP and the National Bureau of Statistics of the People's Republic of China would not be liable for the data extracted from the cited sources and used in this Prospectus under Section 253 and 254 of the Securities and Futures Act. The Directors are also not aware of any disclaimers made by Bloomberg LP and the National Bureau of Statistics of the People's Republic of China in relation to the reliance on the contents of their cited sources. Please refer to the table "Citation of Sources" below for citation of these sources.

CITATION OF SOURCES

Figure/Footnote	Author/Editor	Title	Publication Date	URL	Location within source
“Exchange Rates” - Footnote 1	Bloomberg LP	—	—	—	—
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 1	Euromonitor International	Packaged Food in China	March 2006	—	Pg 60
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 2	Euromonitor International	Packaged Food in China	March 2006	—	Pg 61
“Industry-Confectionery and packaged food industry in the PRC” - Figure 1	Euromonitor International	Packaged Food in China	March 2006	—	Table 28 on Pg 62
“Industry-Confectionery and packaged food industry in the PRC” - Figure 2	Euromonitor International	Packaged Food in China	March 2006	—	Table 29 on Pg 62
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 4	Euromonitor International	Packaged Food in China	March 2006	—	Table 34 and Table 35 on Pg 65
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 5	Euromonitor International	Packaged Food in China	March 2006	—	Table 32 on Pg 62
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 6	Euromonitor International	Packaged Food in China	March 2006	—	Pg 76
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 7	Euromonitor International	Packaged Food in China	March 2006	—	Table 29 on Pg 62
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 8	Euromonitor International	Packaged Food in China	March 2006	—	Pg 77
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 9	Euromonitor International	Packaged Food in China	March 2006	—	Table 28 on Pg 62
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 10	Euromonitor International	Packaged Food in China	March 2006	—	Table 29 on Pg 62
“Industry-Confectionery and Packaged Food Industry in the PRC - Sugar confectionery” - Figure 3	Euromonitor International	Euromonitor Database: Packaged Food in China	2006	—	—
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 11	Euromonitor International	Packaged Food in China	March 2006	—	Table 34 and Table 35 on Pg 65

Figure/Footnote	Author/Editor	Title	Publication Date	URL	Location within source
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 12	Euromonitor International	Euromonitor Database: Packaged Food in China	2006	—	—
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 13	Euromonitor International	Packaged Food in China	March 2006	—	Pg 72
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 14	Euromonitor International	Packaged Food in China	March 2006	—	Pg 72
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 15	Euromonitor International	Packaged Food in China	March 2006	—	Table 28 on Pg 62
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 16	Euromonitor International	Packaged Food in China	March 2006	—	Table 29 on Pg 62
“Industry-Confectionery and Packaged Food Industry in the PRC - Chocolate confectionery” - Figure 4	Euromonitor International	Euromonitor Database: Packaged Food in China	2006	—	—
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 17	Euromonitor International	Packaged Food in China	March 2006	—	Table 34 and Table 35 on Pg 65
“Industry-Confectionery and packaged food industry in the PRC - Bakery Products” - Footnote 18	Euromonitor International	Packaged Food in China	March 2006	—	Pg 84
“Industry-Confectionery and packaged food industry in the PRC - Bakery Products” - Footnote 19	Euromonitor International	Packaged Food in China	March 2006	—	Table 70 on Pg 85
“Industry-Confectionery and packaged food industry in the PRC - Bakery Products” - Figure 5	Euromonitor International	Packaged Food in China	March 2006	—	Table 70 on Pg 85
“Industry-Confectionery and packaged food industry in the PRC - Bakery Products” - Footnote 20	Euromonitor International	Packaged Food in China	March 2006	—	Table 71 on Pg 86
“Industry-Confectionery and packaged food industry in the PRC - Bakery Products - Bakery Products” - Figure 6	Euromonitor International	Packaged Food in China	March 2006	—	Table 71 on Pg 86
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 21	Euromonitor International	Packaged Food in China	March 2006	—	Pg 85

Figure/Footnote	Author/Editor	Title	Publication Date	URL	Location within source
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 22	Euromonitor International	Packaged Food in China	March 2006	—	Table 76 on Pg 88
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 23	Euromonitor International	Packaged Food in China	March 2006	—	Table 71 on Pg 86
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 24	Euromonitor International	Packaged Food in China	March 2006	—	Pg 92
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 25	Euromonitor International	Packaged Food in China	March 2006	—	Table 89 on Pg 94
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 26	Euromonitor International	Packaged Food in China	March 2006	—	Table 89 on Pg 94
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 27	Euromonitor International	Packaged Food in China	March 2006	—	Table 70 on Pg 85
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 28	Euromonitor International	Packaged Food in China	March 2006	—	Table 71 on Pg 86
“Industry-Confectionery and Packaged Food Industry in the PRC - Bakery Products” - Figure 7	Euromonitor International	Euromonitor Database: Packaged Food in China	2006	—	—
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 29	Euromonitor International	Packaged Food in China	March 2006	—	Table 76 and Table 77 on Pg 88
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 30	Euromonitor International	Packaged Food in China	March 2006	—	Pg 96
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 31	Euromonitor International	Packaged Food in China	March 2006	—	Table 70 on Pg 85
“Industry-Confectionery and Packaged Food Industry in the PRC” - Figure 8	Euromonitor International	Euromonitor Database: Packaged Food in China	2006	—	—
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 32	Euromonitor International	Packaged Food in China	March 2006	—	Table 71 on Pg 86
“Industry-Confectionery and packaged food industry in the PRC” - Footnote 33	Euromonitor International	Packaged Food in China	March 2006	—	Table 76 and Table 77 on Pg 88
“Industry-Confectionery and Packaged Food Industry in the PRC “ - Figure 9	Euromonitor International	Euromonitor Database: Packaged Food in China	2006	—	—

Figure/Footnote	Author/Editor	Title	Publication Date	URL	Location within source
“Industry-Macro-economic factors favourable to the development of the PRC confectionery and packaged food industry” - Figure 10	National Bureau of Statistics of the People’s Republic of China	<i>China Statistical Yearbook 2005</i>	10 August 2006	http://www.stats.gov.cn/tjsj/ndsj/2005/indexeh.htm	Chapter 3-1: Gross Domestic Product
“Industry-Confectionery and packaged food industry in the PRC” - Figure 11	National Bureau of Statistics of the People’s Republic of China	<i>China Statistical Yearbook 2005</i>	10 August 2006	http://www.stats.gov.cn/tjsj/ndsj/2005/indexeh.htm	Chapter 10-2: Per Capital Annual Income and Engle Coefficient of Urban and Rural Households
“Industry-Confectionery and packaged food industry in the PRC” - Figure 12	National Bureau of Statistics of the People’s Republic of China	<i>China Statistical Yearbook 2005</i>	10 August 2006	http://www.stats.gov.cn/tjsj/ndsj/2005/indexeh.htm	Chapter 4-1: Population and its composition
“Industry-Retail Distribution in the PRC” - Footnote 34	National Bureau of Statistics of the People’s Republic of China	限额以上连锁零售业情况（按业态分）（2003/2004）	2005	http://www.stats.gov.cn/tjsj/ndsj/2005/indexeh.htm	—
“Industry-Retail Distribution in the PRC” - Footnote 35	Euromonitor International Inhouse Definition	—	—	—	—
“Industry-Macro-economic factors favourable to the development of the PRC confectionery and packaged food industry” - Footnote 36	Euromonitor International	Packaged Food in China	March 2006	—	Page 55
“Industry-Retail distribution in the PRC” – Figure 14	National Bureau of Statistics of the People’s Republic of China	限额以上连锁零售业情况（按业态分）（2003/2004）	2005	http://www.stats.gov.cn/tjsj/ndsj/2005/indexeh.htm	—
“Industry-Retail Distribution in the PRC” - Figure 15	Euromonitor International	Packaged Food in China	March 2006	—	Table 69 on Pg 84
“Industry-Retail Distribution in the PRC” - Figure 16	Euromonitor International	Packaged Food in China	March 2006	—	Table 110 on Pg 103
“Management’s Discussion and Analysis of Financial Condition - Factors Affecting Results of Operation and Financial Condition” - Figure 1	Euromonitor International	Euromonitor Database: Packaged Food in China	2006	—	—
	National Bureau of Statistics of the People’s Republic of China	<i>China Statistical Yearbook 2005</i>	10 August 2006	http://www.stats.gov.cn/tjsj/ndsj/2005/indexeh.htm	Chapter 3-1: Gross Domestic Product

Hsu Fu Chi International Limited

Audited Combined Financial Statements of Hsu Fu Chi International Limited for Years ended 30 June 2004, 2005 and 2006

Index	Page
Statement by Directors	F-2
Auditors' Report	F-3
Combined Profit and Loss Accounts	F-4
Combined Balance Sheets	F-5
Combined Statements of Changes in Equity	F-6
Combined Statement of Cash Flows	F-7
Notes to the Financial Statements	F-10

Hsu Fu Chi International Limited

Statement by Directors

We, Hsu, Chen and Hsu, Hang, being two of the directors of Hsu Fu Chi International Limited, do hereby state that, in the opinion of the directors,

- (i) the accompanying combined financial statements together with notes thereto are drawn up so as to present fairly, the state of affairs of the Group as at 30 June 2004, 2005 and 2006, and the results, changes in equity and cash flows of the Group for the years ended on those dates, and
- (ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they are due.

On behalf of the board of directors

Hsu, Chen
Director

Hsu, Hang
Director

22 November 2006

**REPORT FROM THE AUDITORS IN RELATION TO THE AUDITED COMBINED
FINANCIAL STATEMENTS OF HSU FU CHI INTERNATIONAL LIMITED FOR
YEARS ENDED 30 JUNE 2004, 2005 AND 2006**

22 November 2006

The Shareholders
Hsu Fu Chi International Limited
Cricket Square Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Dear Sirs

We have audited the combined financial statements of Hsu Fu Chi International Limited (the Company) and its subsidiaries (collectively, the Group), set out on pages F-4 to F-41, for the years ended 30 June 2004, 2005 and 2006. These combined financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements of the Group present fairly in all material respects the state of affairs of the Group as at 30 June 2004, 2005 and 2006 and the results, changes in equity and cash flows of the Group for the years ended on those dates.

This report has been prepared solely in connection with the proposed listing of the Company's shares on the Singapore Exchange Securities Trading Limited for inclusion in the Prospectus. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

ERNST & YOUNG
Certified Public Accountants
Singapore

Partner in charge: Max Loh Khum Whai

Hsu Fu Chi International Limited**Combined Profit and Loss Accounts for the years ended 30 June 2004, 2005 and 2006**

(Amounts expressed in Renminbi)

	Note	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Revenue	3	2,056,318	1,809,425	1,443,174
Cost of sales		(1,273,302)	(1,128,793)	(865,771)
Gross profit		783,016	680,632	577,403
Other income	4	32,759	6,647	2,446
Selling and distribution expenses		(381,195)	(363,390)	(264,510)
General and administrative expenses		(184,955)	(132,350)	(117,409)
Profit from operations	5	249,625	191,539	197,930
Financial income	8	2,427	1,085	1,022
Financial expenses	8	(10,116)	(8,401)	(5,874)
Profit before tax		241,936	184,223	193,078
Income tax	9	(30,575)	(22,520)	(23,905)
Net profit attributable to shareholders		211,361	161,703	169,173
Earnings per share (Rmb)	10	0.32	0.24	0.25

The accounting policies and explanatory notes form an integral part of the financial statements.

Hsu Fu Chi International Limited
Combined Balance Sheets as at 30 June 2004, 2005 and 2006

(Amounts expressed in Renminbi)

	Note	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Non-current assets				
Property, plant and equipment	12	938,325	792,510	610,570
Intangible assets	13	138,759	141,739	143,144
Deferred tax assets	14	24,160	10,699	7,887
Current assets				
Inventories	15	197,735	141,000	128,835
Trade receivables	16	336,418	358,936	330,578
Bills receivable	17	15,853	7,899	2,646
Prepayments		68,046	76,556	85,792
Other receivables and deposits	18	20,936	4,965	6,071
Cash and bank balances		133,254	183,874	209,266
		772,242	773,230	763,188
Current liabilities				
Trade payables		85,696	129,788	157,562
Other payables and accruals	19	250,605	332,743	314,100
Bills payable	20	127,170	197,507	109,186
Short-term bank loans	21	210,000	-	-
Term loans	22	20,000	40,000	-
Provision for income tax		5,583	3,303	16,807
		699,054	703,341	597,655
Net current assets		73,188	69,889	165,533
Non-current liability				
Term loans	22	30,000	30,000	104,000
Net assets		1,144,432	984,837	823,134
Equity				
Share capital	23	264,924	264,924	264,924
Reserve fund	24	95,765	54,521	54,247
Accumulated profits		783,743	665,392	503,963
Total Equity		1,144,432	984,837	823,134

The accounting policies and explanatory notes form an integral part of the financial statements.

Hsu Fu Chi International Limited
Combined Statements of Changes in Equity for the years ended 30 June 2004, 2005 and 2006

(Amounts expressed in Renminbi)

	Share capital (Note 23) Rmb'000	Reserve fund (Note 24) Rmb'000	Accumulated profits Rmb'000	Total Rmb'000
Year ended 30 June 2004				
Balance at 1 July 2003	264,924	24,834	406,837	696,595
Profit for the year, representing total recognised income for the year	-	-	169,173	169,173
Dividends (Note 25)	-	-	(42,634)	(42,634)
Appropriation to reserve fund	-	29,413	(29,413)	-
Balance at 30 June 2004	264,924	54,247	503,963	823,134
Year ended 30 June 2005				
Balance at 1 July 2004	264,924	54,247	503,963	823,134
Profit for the year, representing total recognised income for the year	-	-	161,703	161,703
Appropriation to reserve fund	-	274	(274)	-
Balance at 30 June 2005	264,924	54,521	665,392	984,837
Year ended 30 June 2006				
Balance at 1 July 2005	264,924	54,521	665,392	984,837
Profit for the year, representing total recognised income for the year	-	-	211,361	211,361
Dividends (Note 25)	-	-	(51,766)	(51,766)
Appropriation to reserve fund	-	41,244	(41,244)	-
Balance at 30 June 2006	264,924	95,765	783,743	1,144,432

The accounting policies and explanatory notes form an integral part of the financial statements.

Hsu Fu Chi International Limited**Combined Statement of Cash Flows for the financial year ended 30 June 2004, 2005 and 2006**

(Amounts expressed in Renminbi)

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Cash flows from operating activities			
Profit before tax	241,936	184,223	193,078
Adjustments:			
Depreciation of property, plant and equipment	104,987	88,108	68,468
Amortisation of intangible assets	2,980	2,755	1,927
Loss on disposal of property, plant and equipment	910	111	1,722
Allowance for doubtful trade receivables	27,111	15,538	28,113
Allowance for inventory obsolescence	6,169	667	44
Interest expense and bank charges	10,116	8,401	5,874
Interest income	(2,427)	(1,085)	(1,022)
Operating profit before working capital changes	391,782	298,718	298,204
Increase in inventories	(62,904)	(12,832)	(63,625)
Increase in trade and bills receivables	(12,547)	(49,149)	(115,772)
Increase in prepayments, other receivables and deposits	(4,271)	(10,664)	(29,894)
(Decrease) increase in trade and bills payables	(114,428)	60,546	130,177
(Decrease) increase in other payables and accruals	(75,486)	38,832	50,015
Decrease (increase) in bank deposits subject to restricted application	72,089	11,715	(12,908)
Cash generated from operations	194,235	337,166	256,197
Interest income received	2,427	1,085	1,022
Interest expense and bank charges paid	(10,116)	(8,401)	(5,874)
Income taxes paid	(41,757)	(38,835)	(35,663)
Cash generated from operating activities	144,789	291,015	215,682
Cash flows from investing activities			
Purchase of property, plant and equipment (Note B)	(248,970)	(250,950)	(190,122)
Proceeds from sale of property, plant and equipment	2,640	720	767
Purchase of intangible assets (Note C)	(25,538)	(20,462)	(10,558)
Net cash used in investing activities	(271,868)	(270,692)	(199,913)

Hsu Fu Chi International Limited

Combined Statement of Cash Flows for the financial year ended 30 June 2004, 2005 and 2006

(Amounts expressed in Renminbi)

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Cash flows from financing activities			
Proceeds from bank loans	455,000	160,000	45,000
Repayment of bank loans	(265,000)	(194,000)	-
Dividend paid	(41,452)	-	(42,634)
Net cash generated from (used in) financing activities	148,548	(34,000)	2,366
Net increase (decrease) in cash and cash equivalents	21,469	(13,677)	18,135
Cash and cash equivalents at beginning of year	110,429	124,106	105,971
Cash and cash equivalents at end of financial year (Note A)	131,898	110,429	124,106

Notes to the combined statement of cash flows

A. Cash and cash equivalents

Cash and cash equivalents included in the combined statement of cash flows comprise the following:

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Cash and bank balances	133,254	183,874	209,266
Bank deposits subject to restricted application	(1,356)	(73,445)	(85,160)
Cash and cash equivalents	131,898	110,429	124,106

Bank deposits subject to restricted application relate to bank balances placed in designated bank accounts for the purpose of value-added-tax payments as required by the PRC tax authorities.

Cash and bank balances earn interest at rates ranging from 0.1% to 1.44%, 0.125% to 1.44% and 0.125% to 3% per annum for the financial years ended 30 June 2004, 2005 and 2006 respectively.

Hsu Fu Chi International Limited**Combined Statement of Cash Flows for the financial year ended 30 June 2004, 2005 and 2006**

(Amounts expressed in Renminbi)

Notes to the combined statement of cash flows (cont'd)**A. Cash and cash equivalents (cont'd)**

Cash and bank balances are denominated in the following currencies:

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Renminbi	113,192	155,432	173,600
Hong Kong Dollar	13,925	758	14,818
United States Dollar	5,594	27,488	20,781
Others	543	196	67
	<u>133,254</u>	<u>183,874</u>	<u>209,266</u>

B. Property, plant and equipment

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Current year additions to property, plant and equipment	254,353	270,877	142,076
Less: Payable to creditors	(17,746)	(9,174)	(10,252)
Prepayments made in prior year	(30,895)	(51,900)	(13,406)
	<u>205,712</u>	<u>209,803</u>	<u>118,418</u>
Add: Payments for prior year purchase	9,174	10,252	19,804
Prepayments made in current year	34,084	30,895	51,900
	<u>248,970</u>	<u>250,950</u>	<u>190,122</u>
Net cash outflow for purchase of property, plant and equipment			

C. Intangible assets

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Current year additions to intangible assets	-	1,350	69,107
Less: Amounts accrued	-	-	(64,107)
	<u>-</u>	<u>1,350</u>	<u>5,000</u>
Add: Payments for prior years acquisitions	25,538	19,112	5,558
	<u>25,538</u>	<u>20,462</u>	<u>10,558</u>
Net cash outflow for purchase of intangible assets			

The accounting policies and explanatory notes form an integral part of the financial statements.

(Amounts expressed in Renminbi unless otherwise stated)

1. Corporate information

1.1 *The Company*

The Company is an exempt company with limited liability, incorporated in the Cayman Islands on 18 October 2006. The Company was incorporated for the purpose of acquiring the existing companies of the Group pursuant to the Group Restructuring Exercise.

The registered office of the Company is at Cricket Square Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Group is located at Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong Province, 523118, People's Republic of China (PRC).

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are disclosed in Note 11.

1.2 *The Restructuring Exercise*

On 30 October 2006, the Group undertook the Restructuring Exercise in preparation for the listing of the Company. Prior to the Restructuring Exercise, Mr. Hsu, Chen was the sole shareholder of the Company, holding 1,000,000 nil paid shares of S\$0.01 in the capital of the Company, issued as nil paid. The Restructuring Exercise involved the acquisition by the Company all issued shares in Hsu Fu Chi Holdings Ltd. (the "HFCH Shares") at a consideration of RMB981.5 million (the "Purchase Consideration"), which is based on the net asset value of Hsu Fu Chi Holdings Ltd. and its subsidiaries of RMB981.5 million as of 30 June 2006, after taking into account the dividend payments of HK\$40,000,000 in FY2004 and HK\$50,116,000 in FY2006. The Restructuring Exercise was completed when the Company acquired all HFCH Shares from the shareholders of Hsu Fu Chi Holdings (the "Transferors"), namely, Mr. Hsu, Chen, Mr. Hu, Chia-Hsun, Mr. Hsu, Hang, Mr. Hsu, Keng, Mr. Hsu, Pu, Transpac Nominees Pte Ltd (who was holding shares in Hsu Fu Chi Holdings Ltd. as a nominee of the beneficial owners of such shares (the "Beneficial Owners")), Transpac Industrial, Mr. Chang, Hsiu-Cheng, Mr. Chan, Wu-Yang and Mr. Yu, Hung-Hsin. The Purchase Consideration was satisfied by the Company crediting as fully paid the 1,000,000 existing nil paid Shares that were held by Mr. Hsu, Chen, and the allotment and issue of 669,000,000 Shares in the capital of the Company, credited as fully paid, to the Transferors.

2. Significant accounting policies

2.1 Basis of preparation

The combined financial statements of the Group have been prepared on a historical cost basis in accordance with Singapore Financial Reporting Standards (FRS).

The Group's principal operations are conducted in the PRC and thus the combined financial statements are prepared in Renminbi (Rmb), being the measurement and presentation currency of the Group. All values are rounded to the nearest thousand (Rmb'000) except when otherwise indicated.

2.2 Changes in accounting policies

The accounting policies have been consistently applied by the Group during the financial years ended 30 June 2004 to 2006, except for the changes in accounting policies discussed below.

(a) Adoption of new FRS

The Group adopted FRS 39, Financial Instruments: Recognition and Measurement prospectively on 1 July 2005. FRS 39 is mandatory for annual financial periods beginning on or after 1 January 2005. At that date, financial assets within the scope of FRS 39 were classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. Financial assets that were classified as financial assets at fair value through profit or loss and available-for-sale financial assets were measured at fair value while loans and receivables and held-to-maturity investments were measured at amortised cost using the effective interest rate method.

At 1 July 2005, financial liabilities were measured at amortised costs using the effective interest rate method.

The adoption of FRS 39 and FRS 103 did not result in any adjustments to the financial statements as at 1 July 2005 and for the year ended 30 June 2006.

Other new standards mandatory for annual financial periods beginning on or after 1 January 2005 but do not apply to the activities of the Group include:

- FRS 102, Share-based Payment
- FRS 103, Business Combinations
- FRS 105, Non-Current Assets Held for Sale and Discontinued Operations

(b) Adoption of revised FRS

The Group adopted the following revised standards which did not result in any significant change in accounting policies:

- FRS 1 (revised), Presentation of Financial Statements
- FRS 2 (revised), Inventories
- FRS 8 (revised), Accounting Policies, Changes in Accounting Estimates and Errors
- FRS 10 (revised), Events after the Balance Sheet Date
- FRS 16 (revised), Property, Plant and Equipment
- FRS 17 (revised), Leases
- FRS 21 (revised), The Effects of Changes in Foreign Exchange Rates
- FRS 24 (revised), Related Party Disclosures
- FRS 27 (revised), Combined and separate financial statements
- FRS 32 (revised), Financial Instruments: Disclosure and Presentation
- FRS 33 (revised), Earnings Per Share
- FRS 36 (revised), Impairment of Assets
- FRS 38 (revised), Intangible Assets

2. Significant accounting policies (cont'd)

2.2 Changes in accounting policies (cont'd)

(b) *Adoption of revised FRS (cont'd)*

Other revised standards effective for annual financial periods beginning on or after 1 January 2005 but do not apply to the activities of the Group include:

- FRS 28 (revised), Investments in Associates
- FRS 31 (revised), Interests in Joint Venture

(c) *New FRS/Revised FRS/INT FRS not yet effective*

The Group has not applied the following FRS and INT FRS that have been issued but are only effective for annual financial periods beginning on or after 1 January 2006, unless otherwise stated:

- FRS 19 (revised), Employee Benefits
- FRS 40, Investment Property (effective for periods beginning on or after 1 January 2007)
- FRS 106, Exploration for and Evaluation of Mineral Resources
- INT FRS 104, Determining Whether an Arrangement Contains a Lease
- INT FRS 105, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- FRS 107, Financial Instruments: Disclosure (effective for annual financial periods beginning on or after 1 January 2007)
- INT FRS 106, Liabilities Arising from Participating in a Specific Market – Waste Electrical & Electronic Equipment (effective for annual financial periods beginning on or after 1 December 2005)
- INT FRS 107, Applying the Restatement Approach under FRS 29, Financial Reporting in Hyperinflationary Economies (effective for annual financial periods beginning on or after 1 March 2006)

The adoption of FRS 19 and FRS 107 will result in additional disclosures in the financial statements. The remaining new standards do not apply to the Group.

2.3 Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Key sources of estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

2. Significant accounting policies (cont'd)

2.3 Significant accounting estimates and judgements (cont'd)

(i) Depreciation of plant and machinery

The cost less estimated residual value of plant and machinery for the manufacture of confectionery products is depreciated on a straight-line basis over the estimated useful life of the assets. Management estimates the useful life of the production lines to be 5 to 10 years. The carrying amount of the Group's plant and machinery as at 30 June 2006 was Rmb 570,782,000 (2005: Rmb 526,751,000 2004: Rmb 410,498,000). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of the plant and machinery.

(ii) Depreciation of buildings

The cost of construction of buildings is depreciated on a straight-line basis over 20 years. The carrying amount of the Group's buildings as at 30 June 2006 was approximately Rmb 233,210,000 (2005: Rmb 165,988,000 2004: Rmb 138,454,000). Changes in the physical condition of the buildings could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. As at 30 June 2006, there are no indications that the remaining economic useful lives of the buildings are significantly lower than their respective remaining useful lives.

(iii) Accruals for cost of land use rights

The total cost of the Group's land use rights as at 30 June 2006 amounted to approximately Rmb 149,018,000 (2005: Rmb 149,018,000; 2004: Rmb 147,668,000), of which approximately Rmb 89,208,000 (2005: Rmb 63,670,000; 2004: Rmb 43,208,000) has been paid up. As the transfer of certain land use rights from the relevant authorities to the Group has not been completed as of 30 June 2006, the final cost of these land use rights has not been finalised. Accordingly, the management has accrued for the remaining amounts payable on these land use rights based on the preliminary transfer documents of these land use rights. The total accruals for these land use rights as at 30 June 2006 amounted to approximately Rmb 59,810,000 (2005: Rmb 85,348,000; 2004: Rmb 104,460,000). The management believes that the preliminary transfer documents provide the best estimate for the cost of these land use rights and does not expect the eventual cost of the land use rights to be significantly different.

(iv) Income taxes

The Group has exposure to income taxes in the PRC. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payables at 30 June 2006 was Rmb 5,583,000 (2005: Rmb 3,303,000; 2004: Rmb 16,807,000).

2. Significant accounting policies (cont'd)

2.3 Significant accounting estimates and judgements (cont'd)

(b) *Critical judgement made in applying accounting policies*

The following are the judgements made by management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

(i) Capitalisation of land use rights

The Group has land use rights included in intangible assets with carrying value as at 30 June 2006 amounting to approximately Rmb 138,759,000 (2005: Rmb 141,739,000; 2004: Rmb 143,144,000). Whilst the Group has constructed manufacturing facilities and commenced operations on these land during the periods under review, the transfer of certain land use rights from the relevant authorities to the Group has not been completed as of 30 June 2006. These land use rights which are subject to the completion of transfer from the authorities amounted to approximately Rmb 119,399,000 as at 30 June 2006 (2005: Rmb 121,949,000; 2004: Rmb 122,923,000). As the Group has fulfilled the necessary requirements relating to the acquisition of these land use rights, the management expects the transfer of the land use rights to be completed in due course and it is therefore appropriate to recognise these land use rights pending completion of transfer from the authorities as assets of the Group.

2.4 Functional and foreign currency

(a) *Functional currency*

The Group's principal operations are conducted in the PRC. The management has determined the currency of the primary economic environment in which the Group operates i.e. functional currency, to be Renminbi (Rmb). Sales prices and major operating expenses including cost of production are primarily influenced by fluctuations in Rmb.

(b) *Foreign currency transactions*

Transactions in foreign currencies are measured and recorded in Rmb at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the respective balance sheet dates. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the respective balance sheet dates are recognised in the profit and loss account.

2. Significant accounting policies (cont'd)

2.5 Subsidiaries and principles of consolidation

(a) *Subsidiaries*

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Group generally has such power when it directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

(b) *Principles of consolidation*

The combined financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

The combined financial statements of the Group for the financial years ended 30 June 2004, 2005 and 2006 have been prepared in accordance with the principles of merger accounting as the Restructuring Exercise completed as described in Note 1 is a legal reorganisation of entities under common control. Under this method, the Company has been treated as the holding company of all its subsidiaries for the financial years presented rather than from the date of completion of the Restructuring Exercise. Accordingly, the combined results of the Group for the years ended 30 June 2004, 2005 and 2006 include the results of the subsidiaries for the entire periods under review.

Pursuant to this:

- Assets and liabilities are combined at their existing carrying amounts;
- No amount is recognised for goodwill; and
- The paid-in capital of the subsidiary held directly by the Company is shown as the Group's share capital for the financial years under review.

Consolidation of the subsidiaries in the PRC is based on the subsidiaries' financial statements prepared in accordance with FRS. Profits reflected in the financial statements prepared in accordance with FRS may differ from those reflected in the PRC statutory financial statements of the subsidiaries, prepared for PRC reporting purposes. In accordance with the relevant laws and regulations, profits available for distribution by the PRC subsidiaries are based on the amounts stated in the PRC statutory financial statements.

2.6 Related party

An entity or individual is considered a related party of the Group for the purposes of the financial statements if: i) it possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the Group or vice versa; or ii) it is subjected to common control or common significant influence.

2. Significant accounting policies (cont'd)**2.7 Property, plant and equipment**

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis to write off the cost of property, plant and equipment less estimated residual value over the estimated useful life of the assets as follows:

	<u>Years</u>
Buildings	20
Plant and machinery	5-10
Office equipment	5
Motor vehicle	5

Construction-in-progress relates to the production facilities and office buildings under construction and these are depreciated only when they become available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the profit and loss account in the year the asset is derecognised.

2.8 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. The amortisation expense on intangible assets with finite lives is recognised in the profit and loss account through the 'General and administrative expenses' line item.

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the useful life assessment continues to be supportable.

(a) Land use rights

Cost of acquisition of land use rights is capitalised and amortised on a straight-line basis over the lease term of the land use rights.

The amortisation period and method are reviewed at each financial year end. The amortisation expense is recognised in the profit and loss account through the 'General and administrative expenses' line item.

(b) Product development costs

Product development costs are expensed as incurred.

2. Significant accounting policies (cont'd)

2.9 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the profit and loss account through the 'General and administrative expenses' line item.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses recognised for an asset may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Reversal of an impairment loss is recognised in the profit and loss account. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.10 Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

(a) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivative financial instruments are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the profit and loss account.

The Group does not designate any financial assets not held for trading as financial assets at fair value through profit and loss.

2. Significant accounting policies (cont'd)

2.10 Financial assets (cont'd)

(b) *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the assets to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method. This cost is computed as the amount initially recognised minus principal repayments, plus or minus cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount and minus any reduction for impairment or uncollectibility. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the profit and loss account when the investments are derecognised or impaired, as well as through the amortisation process.

(c) *Loans and receivables*

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are initially recognised at fair values, plus directly attributable transaction costs. Subsequent to initial recognition, such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(d) *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised in the fair value adjustment reserve until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

The fair value of investments that are actively traded in organised financial markets is determined by reference to the relevant exchange's quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise unpledged bank deposits and cash and bank balances. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

Cash and short-term deposits carried in the balance sheets are classified and accounted for as loans and receivables. The accounting policy for this category of financial assets is stated in Note 2.10.

2. Significant accounting policies (cont'd)

2.12 Trade and other receivables

Trade and other receivables are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.10.

An allowance is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.13 below.

2.13 Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

(a) *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the profit and loss account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(b) *Available-for-sale financial assets*

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit and loss account, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the profit and loss account. Reversals of impairment losses on debt instruments are reversed through the profit and loss account, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

Raw materials	–	purchase cost on a weighted average basis
Finished goods	–	cost of direct materials and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2. Significant accounting policies (cont'd)

2.15 Trade and other payables

Liabilities for trade and other amounts payable and bills payable, which are normally settled on 30 to 90 days' terms, are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

2.16 Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

2.17 Borrowing costs

Borrowing costs are generally expensed as incurred.

2.18 Derecognition of financial assets and liabilities

(a) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where the contractual rights to receive cash flows from the asset have expired;

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognised directly in equity is recognised in the profit and loss account.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss account.

2. Significant accounting policies (cont'd)

2.19 Employee benefits

(a) *Defined contribution plans - pension benefits*

The subsidiaries in the PRC are required to provide certain staff pension benefits to their employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees.

Pension contributions are recognised as an expense in the period in which the related services are performed.

(b) *Provision for PRC statutory welfare expenses*

Provision for PRC statutory welfare expenses is recognised at 5% of the subsidiaries' net profits as stated in their PRC statutory financial statements, in accordance with the relevant PRC regulations. This amount is charged to the profit and loss account through the "General and administrative expenses" line item.

(c) *Provision for retirement benefits*

The cost of providing benefits under retirement benefits plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains or losses at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets as that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan. Only certain employees are under the retirement benefits plan and the cost of providing benefits under the retirement benefits plan is insignificant to the Group.

2.20 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

(a) *Sale of goods*

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customers, which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) *Interest income*

Interest income is recognised as interest accrues (using the effective interest method) unless collectibility is in doubt.

2.21 Government grant

Grant income is received from the local PRC government at a discretionary amount as determined by the government. It is recognised at its fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised in the profit and loss account over the period necessary to match it on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is recognised as deferred grant income on the balance sheet and is amortised to the profit and loss account over the expected useful life of the relevant asset by equal annual instalments.

2. Significant accounting policies (cont'd)

2.22 Income taxes

(a) *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

(b) *Deferred tax*

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(c) *Value-added-tax ("VAT")*

The Group's sales of goods in the PRC are subjected to VAT at the applicable tax rate of 17% for PRC domestic sales. Input tax on purchases can be deducted from output VAT. The net VAT receivable or payable is included in "Other receivables" or "Other payables". The Group's export sales are not subject to VAT.

Revenues, expenses and assets are recognised net of the amount of VAT except:

- (a) Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- (b) Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Hsu Fu Chi International Limited**Notes to the Combined Financial Statements – 30 June 2004, 2005 and 2006****3. Revenue**

Revenue represents sales of goods net of discounts and value-added tax (VAT).

4. Other income

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Sale of scrap materials	3,426	2,595	1,656
Fines charged to logistics service providers	633	535	349
Government grant	300	1,506	-
Tax refund*	27,010	-	-
Others	1,390	2,011	441
	<u>32,759</u>	<u>6,647</u>	<u>2,446</u>

* The tax refund is associated with the capitalisation of a portion of the accumulated profits of Dongguan Hsu Chi Food Co., Ltd as registered capital.

5. Profit from operations

This is determined after charging (crediting) the following and the items in Notes 4 and 6:

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Directors' remuneration	3,416	2,588	2,546
Depreciation of property, plant and equipment	104,987	88,108	68,468
Amortisation of intangible assets	2,980	2,755	1,927
Foreign exchange loss (gain), net	2,131	69	(52)
Loss on disposal of fixed assets	910	111	1,722
Product development expenses	9,538	6,047	6,219
Allowance for doubtful trade receivables	27,111	15,538	28,113
Allowance for inventory obsolescence	6,169	667	44
Transportation expenses	93,102	93,173	64,025
Contractual payment fees	145,924	130,449	90,040
Operating lease expense	12,431	10,845	7,644
Personnel expenses, including directors' remuneration (Note 6)	<u>236,149</u>	<u>173,181</u>	<u>126,434</u>

Hsu Fu Chi International Limited**Notes to the Combined Financial Statements – 30 June 2004, 2005 and 2006****6. Personnel expenses**

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Salaries and bonus	210,758	152,765	109,868
Contribution to defined contribution plans	12,949	4,552	2,575
Welfare expenses	11,856	15,323	13,816
Retirement benefits	586	541	175
	<u>236,149</u>	<u>173,181</u>	<u>126,434</u>
Number of employees	<u>12,448</u>	<u>10,214</u>	<u>8,217</u>

7. Related party transactions

- (a) In addition to those related party information disclosed elsewhere in the financial statements, the Group had the following transactions between the Group and related parties during the financial years ended 30 June 2004, 2005 and 2006 on terms agreed between the parties:

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Sale of goods	747	-	-
Office rental expense	153	153	76
Interest expense on loan from a director	340	656	106
	<u>1,240</u>	<u>809</u>	<u>182</u>

- (b) Compensation of key management personnel

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Directors' remuneration	3,416	2,588	2,546
Other key management personnel	797	646	170
	<u>4,213</u>	<u>3,234</u>	<u>2,716</u>

8. Financial income and financial expenses

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Interest income			
- bank balances	<u>2,427</u>	<u>1,085</u>	<u>1,022</u>
Interest expenses			
- bank loans	9,204	7,212	5,366
- loan from a director	340	656	106
	<u>9,544</u>	<u>7,868</u>	<u>5,472</u>
Bank charges	572	533	402
	<u>10,116</u>	<u>8,401</u>	<u>5,874</u>

Notes to the Combined Financial Statements – 30 June 2004, 2005 and 2006

9. Income tax

Major components of income tax expense for the years ended 30 June 2004, 2005 and 2006 were:

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Current tax			
- current year	44,036	25,332	26,966
Deferred tax			
- current year	(13,461)	(2,812)	(3,061)
Tax expense	30,575	22,520	23,905

A reconciliation between tax expense and the product of profit before tax multiplied by the applicable tax rate for the years ended 30 June 2004, 2005 and 2006 is as follows:

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Profit before tax	241,936	184,223	193,078
Tax at the domestic tax rates applicable to profit in the respective countries	41,217	21,963	23,203
Tax effect of:			
- income not subject to taxation	(5,293)	(181)	-
- expenses not deductible for tax purposes	-	75	692
Impact on deferred tax asset resulting from change in tax rate	(5,349)	-	-
Others	-	663	10
Tax expense	30,575	22,520	23,905

Based on the Income Tax Law of the PRC for Enterprises with Foreign Investment, the subsidiaries in the PRC, Dongguan Hsu Chi Food Co., Ltd. (Dongguan Hsu Chi), Dongguan Hsu Fu Chi Food Co., Ltd. (Dongguan Hsu Fu Chi) and Dongguan Anco Food Co., Ltd. (Dongguan Anco) are entitled to an exemption from PRC Enterprise Income Tax (EIT) for two years commencing from their first profit-making year of operation and a 50% relief from PRC EIT for the following three years. As these subsidiaries are engaged in a manufacturing business established in a coastal economic zone, they are entitled to a reduced EIT of 24%. Local tax rate is at 3%.

On 30 December 2001, Dongguan Hsu Chi was granted the technologically advanced foreign invested enterprise status which entitled the subsidiary to extend its 50% relief from PRC EIT as well as exemption from local tax for another 3 years up to 31 December 2005. Accordingly, the subsidiary is subject to the reduced tax rate of 12% for FY2004, FY2005 and the first half of FY2006. On 30 May 2006, the subsidiary qualified for the high and new technology enterprise status and is therefore entitled to a reduced tax rate of 18% (reduced EIT of 15% and 3% local tax) from 1 January 2006 to 31 December 2007.

Hsu Fu Chi International Limited

Notes to the Combined Financial Statements – 30 June 2004, 2005 and 2006

9. Income tax (cont'd)

Dongguan Hsu Fu Chi and Dongguan Anco are no longer in the tax holiday period and are subject to a tax rate of 27% (EIT of 24% and local tax of 3%) for FY2004, FY2005 and FY2006.

Hsu Fu Chi Holdings Ltd. and Top Ocean Trading Limited are incorporated in the British Virgin Islands and Western Samoa respectively and are not required to pay taxes.

Hsu Fu Chi (Hong Kong) Trading Company Limited is subject to a tax rate of 17.5% for FY2004, FY2005 and FY2006.

10. Earnings per share

Earnings per share is calculated by dividing the net profit attributable to equity shareholders of the Company by the pre-Invitation share capital of

11. Investment in subsidiaries

The Company had the following subsidiaries as at 30 June:

Name of company	Country of incorporation	Country of operation	Principal activities	Equity interest held by the Group		
				2006 %	2005 %	2004 %
Hsu Fu Chi Holdings Ltd.	British Virgin Islands	PRC	Investment holding	100	100	100
<u>Held by subsidiary</u>						
Hsu Fu Chi (Hong Kong) Trading Company Limited	Hong Kong	Hong Kong	Sale and distribution of confectionery products	100*	100*	100*
Top Ocean Trading Limited	Western Samoa	Hong Kong	Sale and distribution of confectionery products	100	100	100
Dongguan Hsu Chi Food Co., Ltd	PRC	PRC	Manufacture of confectionery products and sale and distribution of self-manufactured confectionery products	100	100	100
Dongguan Hsu Fu Chi Food Co., Ltd.	PRC	PRC	Manufacture of confectionery products	100	100	100
Dongguan Anco Food Co., Ltd.	PRC	PRC	Manufacture of preserved fruits	100	100	100

* Includes 1% equity interest held by a director on behalf of Hsu Fu Chi Holdings Ltd.

Hsu Fu Chi International Limited

Notes to the Combined Financial Statements – 30 June 2004, 2005 and 2006

12. Property, plant and equipment

	Buildings Rmb'000	Plant and machinery Rmb'000	Office equipment Rmb'000	Motor vehicle Rmb'000	Construction-in- progress Rmb'000	Total Rmb'000
30 June 2004						
Cost						
At the beginning of the year	154,505	503,300	10,312	18,008	10,198	696,323
Additions	2,255	90,399	7,716	7,621	34,085	142,076
Disposals	-	(5,134)	(539)	(2,117)	-	(7,790)
Reclassifications	8,829	1,105	2,822	-	(12,756)	-
At the end of the year	165,589	589,670	20,311	23,512	31,527	830,609
Accumulated depreciation						
At the beginning of the year	19,216	127,869	4,071	5,716	-	156,872
Depreciation charge for the year	7,919	54,728	2,877	2,944	-	68,468
Disposals	-	(3,425)	(150)	(1,726)	-	(5,301)
At the end of the year	27,135	179,172	6,798	6,934	-	220,039
Net carrying amount						
At the end of the year	138,454	410,498	13,513	16,578	31,527	610,570

Hsu Fu Chi International Limited

Notes to the Combined Financial Statements – 30 June 2004, 2005 and 2006

12. Property, plant and equipment (cont'd)

	Buildings Rmb'000	Plant and machinery Rmb'000	Office equipment Rmb'000	Motor vehicle Rmb'000	Construction-in- progress Rmb'000	Total Rmb'000
30 June 2005						
Cost						
At the beginning of the year	165,589	589,670	20,311	23,512	31,527	830,609
Additions	1,998	184,329	8,548	7,494	68,508	270,877
Disposals	(65)	-	(332)	(1,676)	-	(2,073)
Reclassifications	34,578	2,507	-	-	(37,085)	-
At the end of the year	202,100	776,506	28,527	29,330	62,950	1,099,413
Accumulated depreciation						
At the beginning of the year	27,135	179,172	6,798	6,934	-	220,039
Depreciation charge for the year	8,977	70,583	4,498	4,050	-	88,108
Disposals	-	-	(160)	(1,084)	-	(1,244)
At the end of the year	36,112	249,755	11,136	9,900	-	306,903
Net carrying amount						
At the end of the year	165,988	526,751	17,391	19,430	62,950	792,510

Hsu Fu Chi International Limited

Notes to the Combined Financial Statements – 30 June 2004, 2005 and 2006

12. Property, plant and equipment (cont'd)

	Buildings Rmb'000	Plant and machinery Rmb'000	Office equipment Rmb'000	Motor vehicle Rmb'000	Construction-in- progress Rmb'000	Total Rmb'000
30 June 2006						
Cost						
At the beginning of the year	202,100	776,506	28,527	29,330	62,950	1,099,413
Additions	240	129,087	10,812	10,690	103,524	254,353
Disposals	-	(5,051)	(2,301)	(3,330)	-	(10,682)
Reclassifications	76,607	-	-	-	(76,607)	-
At the end of the year	278,947	900,542	37,038	36,690	89,867	1,343,084
Accumulated depreciation						
At the beginning of the year	36,112	249,755	11,136	9,900	-	306,903
Depreciation charge for the year	9,625	84,452	6,197	4,713	-	104,987
Disposals	-	(4,447)	(1,054)	(1,630)	-	(7,131)
At the end of the year	45,737	329,760	16,279	12,983	-	404,759
Net carrying amount						
At the end of the year	233,210	570,782	20,759	23,707	89,867	938,325

Certain buildings with total net book value of Rmb 23,385,000 (2005: Rmb 24,931,000; 2004: 26,477,000) have been mortgaged to Industrial and Commercial Bank of China to secure banking facilities.

13. Intangible assets

Intangible assets comprise land use rights.

	Rmb'000
Cost	
At 1 July 2003	78,561
Additions	69,107
	<hr/>
At 30 June 2004 and 1 July 2004	147,668
Additions	1,350
	<hr/>
At 30 June 2005 and 1 July 2005	149,018
Additions	-
	<hr/>
At 30 June 2006	149,018
	<hr/>
Accumulated amortisation	
At 1 July 2003	2,597
Amortisation charge for the year	1,927
	<hr/>
At 30 June 2004 and 1 July 2004	4,524
Amortisation charge for the year	2,755
	<hr/>
At 30 June 2005 and 1 July 2005	7,279
Amortisation charge for the year	2,980
	<hr/>
At 30 June 2006	10,259
	<hr/>
Net carrying amount	
At 30 June 2004	143,144
	<hr/>
At 30 June 2005	141,739
	<hr/>
At 30 June 2006	138,759
	<hr/>

Land use rights with net carrying amount of Rmb 6,307,000 (2005: Nil; 2004: Rmb Nil) have been mortgaged to Industrial and Commercial Bank of China to secure banking facilities.

14. Deferred tax assets

Deferred tax assets arise as a result of:

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Differences in depreciation	3,781	1,858	1,041
Differences in amortisation	978	443	223
Provisions	15,031	6,541	4,974
Other timing differences	4,370	1,857	1,649
	<u>24,160</u>	<u>10,699</u>	<u>7,887</u>

15. Inventories

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Raw materials	122,598	61,608	54,357
Finished goods	75,137	79,392	74,478
	<u>197,735</u>	<u>141,000</u>	<u>128,835</u>

Total inventories at lower of cost and net
realisable value

16. Trade receivables

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Trade receivables	412,379	419,687	375,791
Less: allowance for doubtful trade receivables	(75,961)	(60,751)	(45,213)
	<u>336,418</u>	<u>358,936</u>	<u>330,578</u>

Trade receivables are non-interest bearing and are normally settled on 30 to 120 days' term. They are recognised at their original invoiced amounts which represent their fair values on initial recognition.

Trade receivables are denominated in the following currencies:

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Renminbi	325,093	352,013	327,275
Hong Kong Dollar	2,457	2,982	2,769
United States Dollar	8,868	3,941	534
	<u>336,418</u>	<u>358,936</u>	<u>330,578</u>

17. Bills receivable

Bills receivable are non-interest bearing and are normally settled on 90 to 180 days' term.

18. Other receivables and deposits

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Other receivables	3,727	2,397	2,719
VAT receivable	6,839	-	-
Deposits	10,370	2,568	3,352
	<u>20,936</u>	<u>4,965</u>	<u>6,071</u>

19. Other payables and accruals

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Advances from customers	261	49	429
Accrued payroll	11,573	9,609	6,764
Accruals for land use rights	59,810	85,348	104,460
Accrued operating expenses	104,290	72,372	39,291
Accruals for purchase of property, plant and equipment	17,746	9,174	10,252
VAT and other operating taxes	-	104,362	110,626
Provision for PRC statutory welfare expenses	7,428	4,262	6,304
Provision for retirement benefits	4,032	3,446	2,905
Loan from a director*	-	12,737	12,737
Dividends payable	10,314	-	-
Other payables	35,151	31,384	20,332
	<u>250,605</u>	<u>332,743</u>	<u>314,100</u>

* The amount which is denominated in Hong Kong Dollar, is repayable in full in December 2005 and bears interest at 4.99% per annum.

20. Bills payable

Bills payable to banks are interest-free and have maturity periods ranging from 90 to 180 days. Certain bills payable to banks amounting to Rmb 43,833,000 (2005: Rmb 121,601,000; 2004: Rmb 65,860,000) and Rmb 10,974,000 (2005: Nil; 2004: Nil) are secured by corporate guarantees from Dongguan Hsu Fu Chi Food Co., Ltd. and Hsu Fu Chi Holdings Ltd. respectively.

21. Short-term bank loans

The short-term bank loans have interest rates ranging from 4.698% to 4.860% per annum. These loans are repayable in full during the period from August 2006 to December 2006. Certain short-term bank loans amounting to Rmb 40,000,000 and Rmb 80,000,000 are secured by corporate guarantees from Dongguan Hsu Fu Chi Food Co., Ltd. and Hsu Fu Chi Holdings Ltd. respectively.

22. Term loans

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Industrial and Commercial Bank of China ¹		-	30,000
Industrial and Commercial Bank of China ¹	-	1,000	15,000
Industrial and Commercial Bank of China ¹	-	20,000	20,000
Industrial and Commercial Bank of China ¹	-	15,000	25,000
Industrial and Commercial Bank of China ¹	-	4,000	14,000
Bank of China ²	30,000	30,000	-
Industrial and Commercial Bank of China ³	10,000	-	-
Industrial and Commercial Bank of China ³	10,000	-	-
	50,000	70,000	104,000

¹ These term loans are unsecured and bear interest at 4.941% per annum. They are repayable in full over the period from October 2005 to December 2005.

² This term loan is secured by a corporate guarantee from Dongguan Hsu Fu Chi Food Co., Ltd. and bears interest at 5.184% per annum. It is repayable in full in December 2007.

³ These term loans are unsecured and bear interest at 5.022% per annum. They are repayable in full in December 2006.

23. Share capital

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Paid-in capital	264,924	264,924	264,924

24. Reserve fund

In accordance with the relevant laws and regulations of the PRC, companies in the PRC are required to set aside a general reserve fund by way of appropriation from their statutory net profit, as reported in the PRC statutory financial statements, at a rate to be determined by the board of directors of the Company. The board of directors have decided that in general 10% of the statutory net profit, as reported in the PRC statutory financial statements, of the subsidiaries in the PRC be appropriated each year to the general reserve fund. Accordingly, the appropriations made for the respective financial years under review are determined based on actual appropriations to the reserve fund as reported in the PRC statutory financial statements of the PRC subsidiaries for the relevant financial periods.

The reserve fund may be used to offset accumulated losses or increase the registered capital of these subsidiaries, subject to the approval from the PRC authorities and are not available for dividend distribution to the shareholders.

25. Dividends

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Dividend declared by subsidiary to the then existing shareholders prior to the Restructuring Exercise			
- Hsu Fu Chi Holdings Ltd.	51,766	-	42,634

26. Segment information

Reporting format

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products produced. The operating businesses are organised and managed separately according to the nature of the products provided, with each segment representing a strategic business segment that offers different products and serves different markets.

Business segments

The Group's primary format for reporting segment information is business segments, with each segment representing a product category. The Group's business segment is organised into three business segments, namely:

- (i) **Candy Products**
This category consists primarily of candies, such as Chinese New Year Candies. Jelly and pudding and chocolate products are also included under this category as secondary products.
- (ii) **Cake and Cookie Products**
The category consists mainly of different types of cakes and cookies produced under the Hsu Fu Chi brand. The major products under this category are crisps with fillings, oat crisps and flapjacks.
- (iii) **Sachima Products**
The major products under this category are egg Sachima, egg yolk Sachima, egg crisp Sachima and Sesame Sachima. Sachima is one of the best-known products of the Group.

Geographical segments

The Group's revenue by geographical segments is based on the location of its customers. With the exception of the People's Republic of China (PRC), no other individual country contributed more than 10% of consolidated turnover during the financial years under review.

Allocation basis and transfer pricing

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other operating income operating expenses, financial income and expenses and tax expense.

Group assets and liabilities cannot be directly attributable to individual segments as it is impracticable to allocate them to the segments. Accordingly, it is not meaningful to disclose assets, liabilities and capital expenditure by business segments.

26. Segment information (cont'd)

FY2006	Candy Products Rmb'000	Cake and Cookie Products Rmb'000	Sachima Products Rmb'000	Total Rmb'000
Revenue	1,003,159	595,199	457,960	2,056,318
Gross profit	426,659	240,281	116,076	783,016
Unallocated expenses, net				(533,391)
Financial expenses, net				(7,689)
Profit before tax				241,936
Tax				(30,575)
Net profit attributable to shareholders				211,361
Allowance for inventory obsolescence	5,791	171	207	6,169
Allowance for doubtful trade receivables				27,111
Depreciation of property, plant and equipment				104,987
Amortisation of intangible assets				2,980
FY2005				
Revenue	923,864	506,800	378,761	1,809,425
Gross profit	379,585	211,341	89,706	680,632
Unallocated expenses, net				(489,093)
Financial expenses, net				(7,316)
Profit before tax				184,223
Tax				(22,520)
Net profit attributable to shareholders				161,703
Allowance for inventory obsolescence	791	120	(244)	667
Allowance for doubtful trade receivables				15,538
Depreciation of property, plant and equipment				88,108
Amortisation of intangible assets				2,755

26. Segment information (cont'd)

FY2004	Candy Products Rmb'000	Cake and Cookie Products Rmb'000	Sachima Products Rmb'000	Total Rmb'000
Revenue	747,184	399,901	296,089	1,443,174
Gross profit	322,549	176,037	78,817	577,403
Unallocated expenses, net				(379,473)
Financial expenses, net				(4,852)
Profit before tax				193,078
Tax				(23,905)
Net profit attributable to shareholders				169,173
Allowance for inventory obsolescence	396	(573)	221	44
Allowance for doubtful trade receivables				28,113
Depreciation of property, plant and equipment				68,468
Amortisation of intangible assets				1,927

27. Commitments**(a) Capital expenditure and other commitments**

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
<u>Capital expenditure</u>			
Commitments in respect of purchase of property, plant and equipment	59,490	16,142	68,818
Commitment in respect of contracts entered into for construction-in-progress	28,685	39,543	1,036
<u>Others</u>			
Commitments in respect of purchase of raw materials	96,039	-	-

27. Commitments (cont'd)**(b) Operating lease commitments**

The Group has operating lease agreements for its office premises, warehouses and staff quarters in the PRC and office premises in Hong Kong. Certain of these leases have options for renewal. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing. Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000
Not later than 1 year	2,865	2,915	1,849
1 year through 5 years	4,141	2,756	3,253
More than 5 years	6,172	6,456	6,775
	<u>13,178</u>	<u>12,127</u>	<u>18,877</u>

28. Financial risk management objectives and policies

The Group's principal financial instruments comprise term loans, bills payable, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk (both fair value and cash flow), liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

The Group does not hold or issue derivative financial instruments for trading purposes.

(a) Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's bank borrowings. The Group obtains additional financing through bank borrowings. The Group's policy is to obtain the most favourable interest rates available.

Surplus funds are placed with reputable banks.

Information relating to the Group's interest rate exposure is also disclosed in the notes on the Group's borrowings.

(b) Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

28. Financial risk management objectives and policies (cont'd)

(c) Foreign currency risk

The Group has transactional currency exposure arising from sales in United States Dollars and Hong Kong Dollars. As such, the Group has trade receivables denominated in the respective currencies as disclosed in the combined financial statements. The Group has also bank balances denominated in United States Dollar and Hong Kong Dollars. Accordingly, the Group's balance sheets can be affected by movements in the United States Dollar/Rmb and Hong Kong Dollar/Rmb exchange rates.

The Group has not entered into any hedges.

The Group's operations are primarily conducted in the PRC in Rmb.

Currently, the PRC government imposes control over foreign currencies. Rmb, the official currency in the PRC, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorized financial institutions.

Payments for imported materials or services, which is outside of the PRC, are subject to the availability of foreign currency which depends on the foreign currency denominated earnings of the enterprises. Exchanges of Rmb for foreign currency must be arranged through the People's Bank of China or other authorized financial institutions and is granted to enterprises in the PRC for valid reasons such as purchase of imported materials and remittance of earnings. While conversion of Rmb into Singapore dollars or other currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

(d) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored closely on an ongoing basis.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and other receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

29. Financial instruments

(a) Credit risk

As at 30 June 2006, 2005 and 2004, there was no significant concentration of credit risk within the Group.

(b) Fair values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Financial instruments carried at fair value

The Group has no financial instruments that are classified as held for trading, available-for-sale financial assets, or derivative financial instruments, which would have been carried at their respective fair values as required by FRS 39.

29. Financial instruments (cont'd)*Financial instruments whose carrying amount approximate fair value*

Management has determined that the carrying amounts of cash and bank balances, current trade and other receivables, current trade and other payables, short-term bank loans and bank term loans, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are repriced frequently.

Financial instruments carried at other than fair value

The Group has no financial instrument, whose carrying amount does not reasonably estimate fair value and is carried in the financial statements at other than fair value, as at 30 June 2004, 2005 and 2006.

(c) Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments, that are exposed to interest rate risk:

2006	Within 1 year Rmb'000	1-2 years Rmb'000	2-3 years Rmb'000	More than 3 years Rmb'000	Total Rmb'000
Fixed rate					
Term loans	20,000	30,000	-	-	50,000
Short-term bank loan	210,000	-	-	-	210,000
Floating rate					
Bank balances	133,254	-	-	-	133,254

2005	Within 1 year Rmb'000	1-2 years Rmb'000	2-3 years Rmb'000	More than 3 years Rmb'000	Total Rmb'000
Fixed rate					
Term loans	40,000	-	30,000	-	70,000
Short-term bank loan	-	-	-	-	-
Floating rate					
Bank balances	183,874	-	-	-	183,874

2004	Within 1 year Rmb'000	1-2 years Rmb'000	2-3 years Rmb'000	More than 3 years Rmb'000	Total Rmb'000
Fixed rate					
Term loans	-	104,000	-	-	104,000
Short-term bank loan	-	-	-	-	-
Floating rate					
Bank balances	209,266	-	-	-	209,266

The other financial instruments of the Group that are not included in the above tables are not subject to interest rate risks.

30. Subsequent events

Subsequent to the financial year ended 30 June 2006,

- (i) Hsu Fu Chi Holdings Ltd. incorporated a 100% owned subsidiary, Hsu Fu Chi Foods Pte. Ltd. in Singapore with a paid-up share capital of S\$2;
- (ii) The Company finalised the transfer of certain land use rights with cost amounting to Rmb 49,113,000 from the relevant authorities;
- (iii) By written resolutions of the sole director of the Company dated 30 October 2006, the sole director of the Company approved, inter alia, the issue of one nil paid share of \$0.01 to Codan Trust Company (Cayman) Limited, which share was then transferred to Mr. Hsu, Chen, and the issue of 999,999 shares of S\$0.01 each, as nil paid, to Mr. Hsu, Chen;
- (iv) By written resolutions of the Shareholders dated 30 October 2006, the Shareholders approved, inter alia, the following:-
 - (a) the increase of the Company's authorised share capital from S\$10,000 divided into 1,000,000 ordinary shares of S\$0.01 each to S\$30,000,000 divided into 3,000,000,000 ordinary shares of S\$0.01 each;
 - (b) the acquisition by the Company of the entire issued share capital of Hsu Fu Chi Holdings Ltd. (including the crediting, as fully paid, of the nil paid shares of the Company held by Mr. Hsu, Chen and the issue of 669,000,000 Shares, credited as fully paid);
 - (c) the adoption of a new set of Articles;
 - (d) the allotment and issue of the New Shares which are the subject of the Invitation. The New Shares, when allotted, issued and fully paid up, will rank *pari passu* in all respects with the existing issued and fully paid up Shares;

30. Subsequent events (cont'd)

(e) that authority be given to the Directors to:

- allot and issue Shares (other than the New Shares); and
- issue convertible securities and any Shares in the Company pursuant to convertible securities (whether by way of rights, bonus or otherwise)

at any time and upon such terms and conditions whether for cash or otherwise and for such purposes and to such persons as the Directors may think fit for the benefit of the Company; provided, that the aggregate number of Shares to be issued pursuant to such authority shall not exceed 50% of the post-Invitation issued share capital of the Company and that the aggregate number of Shares and convertible securities to be issued other than on a pro-rata basis to the then existing Shareholders of the Company shall not exceed 20% of the post-Invitation issued share capital of the Company. Unless revoked or varied by the Company in a general meeting, such authority shall continue in full force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting is required by law or by the Bye-Laws to be held, whichever is earlier, except that the Directors shall be authorised to allot and issue new Shares pursuant to the convertible securities notwithstanding that such authority has ceased.

For the purposes of the foregoing and pursuant to Rules 806(3) and 806(4) of the Listing Manual, “post-Invitation issued share capital” means the enlarged issued and paid-up share capital of the Company after the Invitation, and where applicable, after adjusting for (i) new Shares arising from the conversion or exercise of convertible securities, (ii) new Shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this resolution, provided the options or awards were granted in compliance with Part VII of Chapter 8 of the Listing Manual and (iii) any subsequent consolidation or sub-division of shares.

31. Authorisation of financial statements

The combined financial statements for the years ended 30 June 2004, 2005 and 2006 were authorised for issue in accordance with a resolution of the directors on 22 November 2006.

APPENDIX A
SUMMARY OF MEMORANDUM OF ASSOCIATION
AND SELECTED ARTICLES OF THE COMPANY

This appendix provides information about certain provisions of the Company's Memorandum of Association and Articles and certain aspects of Cayman Islands company law. The description below is only a summary and is qualified in its entirety by reference to the Company's Memorandum of Association and Articles and the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Cayman Companies Law").

1. Registration number and Memorandum of Association

The registration number with which the Company was incorporated is CT-175834.

The Company's 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 shares respectively held by them and that the Company is an exempted company as defined in the Cayman Companies Law. Paragraph 3 of the Memorandum of Association states that the objects for which the Company is formed are unrestricted. Its powers are set out in paragraph 4, which provides that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided by section 27(2) of the Cayman Companies Law.

2. Directors

- (a) *A director's power to vote on a proposal, arrangement or contract in which he is interested (Articles 101 and 102)*

A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first considered, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested.

A Director shall not vote on any resolution of the Board in respect of any contract or arrangement or proposed contract or arrangement in which he has directly or indirectly a personal material interest. However, the interested director need not be excluded from being counted in the quorum for the meeting at which such contract or arrangement or proposed contract or arrangement is considered.

A Director, whose remuneration (including pension or other benefits) for himself is the subject of a resolution tabled at a meeting of the Board, shall not be entitled to vote on the resolution as he shall be taken have a personal material interest in the matter. Other Directors of the Company will not be prohibited by the Articles from voting on that resolution so long as they do not have any direct or indirect personal material interest in the subject matter of the said resolution.

- (b) *A director's power to vote on remuneration (including pension or other benefits) for himself or for any other director, and whether the quorum at a meeting of the board of directors to vote on directors' remuneration may include the director whose remuneration is the subject of the vote (Articles 90, 95, 97(1) and 98)*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, shall not be increased except pursuant to an ordinary resolution passed at a general meeting where notice of the proposed increase shall have been given in the notice convening the general meeting, and shall (unless otherwise directed by the resolution by which it is voted) be divided amongst the Board in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office.

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 Article. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall

receive such remuneration (whether by way of salary, commission, participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time determine, and either in addition to or in lieu of his remuneration as a Director, but he shall not in any circumstances be remunerated by a commission on or a percentage of turnover.

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.

- (c) *The borrowing powers exercisable by the directors and how such borrowing powers may be varied (Article 109)*

The Board may exercise all the powers of the Company to raise or borrow money and 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 Cayman Companies Law, to issue debentures, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

These powers conferred on the Board may be varied by amending the relevant Articles of the Company.

- (d) *The retirement or non-retirement of a director under an age limit requirement*

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

- (e) *The number of shares, if any, required for the qualification of a director (Article 85(3))*

Neither a Director nor an alternate Director is required to hold any shares of the Company by way of qualification.

3. **Share rights and restrictions**

The Company currently has only one class of shares, namely ordinary shares.

- (a) *Dividends and distribution (Articles 136, 137, 138, 140 and 143)*

Subject to the Cayman Companies Law, the Company in general meeting may from time to time declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board. Dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of the share premium account or any other fund or account which may be authorised for this purpose in accordance with the Cayman Companies Law, provided that no distribution or dividend may be paid to Members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated as paid up on the share; and (ii) all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other moneys 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.

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. Any dividend or bonuses unclaimed after a period of six years from the date of declaration shall be forfeited and shall revert to the Company.

- (b) *Voting rights (Articles 65 and 77(1))*

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting (i) on a show of hands every member present in

person (or being a corporation, is present by a representative duly authorised under Article 83) or by proxy shall have one vote and the chairman of the meeting shall determine which proxy shall be entitled to vote where a member (other than CDP) is represented by two proxies, and (ii) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder or which he represents and in respect of which all calls due to the Company have been paid, but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. If the member is CDP, CDP may appoint more than two proxies to attend and vote at the same general meeting and each proxy shall be entitled to exercise the same powers on behalf of CDP as CDP could exercise, including the right to vote individually on a show of hands.

The Articles do not provide for cumulative voting in relation to election or re-election of Directors.

(c) *Share in profits*

Holders of shares shall be entitled to share in the Company's profits by way of dividends declared or distribution approved by the Company in general meeting in accordance with the Cayman Companies Law.

(d) *Share in surplus upon liquidation (Article 163)*

Shareholders are entitled to the surplus assets of the Company in the event that it is wound up. If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company and whether or not the assets shall consist of properties of one kind or shall consist of properties to be divided as aforesaid of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property 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 the members as the liquidator with the like authority shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(e) *Redemption provisions*

The shares do not have redemption rights.

(f) *Sinking fund*

The Articles do not contain sinking fund provisions.

(g) *Calls on shares (Articles 25, 26, 28 and 33)*

Subject to the Articles and to the terms of allotment, the Board may from time to time make calls upon the members in respect of any moneys unpaid on their shares (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 instalments. If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the amount unpaid from the day appointed for payment thereof to the time of actual payment at such rate (not exceeding twenty per cent. (20%) per annum) as the Board may determine, but the Board may in its absolute discretion 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, and either in money or money's worth, all or any part of the moneys uncalled and unpaid or instalments payable upon any shares held by him and upon all or any of the moneys so advanced (until the same would, but for such advance, become presently payable) pay interest at such rate (if any) as the Board may decide.

The Memorandum of Association states that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them.

(h) *Discriminatory provisions against substantial shareholder (Article 167)*

The Articles do not contain any provision discriminating against any existing or prospective holder of shares as a result of such shareholder owning a substantial number of shares save that for so long as the

shares of the Company are listed on the Designated Stock Exchange (which includes the SGX-ST), substantial shareholders (having the meaning ascribed to it in the Singapore Companies Act) have to disclose particulars of their interest in the Company and of any change in the percentage level of such interest. Such requirement to disclose does not apply to CDP.

4. Variation of rights of existing shares or classes of shares (Article 10)

The special rights attached to any class of shares may be varied or abrogated either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so repaid, varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding-up. To every such separate general meeting and all adjournments thereof all the provisions of the Articles relating to general meetings of the Company and to the proceedings thereat shall *mutatis mutandis* apply, except that the necessary quorum (other than at an adjourned meeting) shall be two persons at least holding or representing by proxy at least one-third in nominal value of the issued shares of the class and at any adjourned meeting of such holders, two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum and that any holder of shares of the class present in person or by proxy may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him.

The Cayman Companies Law does not contain provisions determining the action necessary to change the rights of holders of shares, and thus the Articles impose more significant conditions than the Companies Law in this regard.

5. General meetings (Articles 2, 55, 56, 57 and 79)

Under the Cayman Companies Law, there is no distinction between annual general meetings and other general meetings. Under the Articles, the annual general meeting is required to be convened at least once in every calendar year whilst the Directors may, whenever they think fit, convene an extraordinary general meeting.

Article 2 defines an ordinary resolution as one passed by a simple majority of votes cast by members at general meetings, and a special resolution as a resolution requiring a 75 per cent. (75%) majority vote of members at general meetings of which not less than 21 days' notice has been given.

All registered shareholders of the Company are entitled to attend general meetings of the Company. The Cayman Companies Law does not contain provisions as to any documentary evidence to be produced by proxies and corporate representatives. However, such provisions may be contained in the Articles. Where, for example, it is stated that the instrument of proxies must be deposited a specified number of hours before the meeting (see Article 79), proxies deposited after that time cannot be admitted.

Corporate representatives are different from proxies and unless specifically required by the Articles, a letter of appointment does not need to be lodged before the meeting. There are currently no such provisions in the Articles.

6. No limitation on non-Caymanian shareholders

There are no limitations, either under Cayman Islands law or the Articles, on the rights of non-Caymanian owners of the Company's shares to hold or vote their shares.

7. Changes in control

(a) *Issue of shares (Article 12(1)(a))*

No shares shall be issued to transfer a controlling interest in the Company without the prior approval of the members in general meeting.

(b) *Take-overs (Articles 168)*

For so long as the Shares are listed on the Designated Stock Exchange (which includes the SGX-ST), the provisions of section 138, 139 and 140 of the Singapore Securities and Futures Act and the Singapore Code on Take-overs and Mergers shall apply, *mutatis mutandis*, to all take-over offers for the Company.

8. Shareholding disclosure requirement (Article 167)

The Cayman Companies Law does not require disclosure of shareholder ownership beyond a certain threshold. However, Article 167 contains provisions to the effect that for so long as the shares of the Company are listed on the Designated Stock Exchange (which includes the SGX-ST), Directors and substantial shareholders (having the meaning ascribed to it in the Singapore Companies Act) of the Company will have to disclose particulars of their interest in the Company and any change in the percentage level of such interest. Article 167 will not apply to CDP.

9. Changes in capital (Articles 4 and 6)

Under the Cayman Companies Law, certain changes in the capital of the Company such as an increase, consolidation or sub-division are permitted if authorised by its articles of association. Article 4 provides that an ordinary resolution is required for an increase to, consolidation or sub-division of, the Company's share capital. With regard to a reduction of share capital, Article 6, following the requirement of the Cayman Companies Law, requires a special resolution to be passed.

APPENDIX B

SUMMARY OF CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 18 October 2006 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Cayman Companies Law”). Set out below is a summary of certain provisions of Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

1. Operations

As an exempted company, the Company’s operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

2. Share capital

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration for the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company shall be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

3. Membership

Under the Cayman Companies Law, only those persons who agree to become shareholders of a Cayman Islands company and whose names are entered on the register of members of such a company are considered members. A Cayman Islands company is also not bound to see to the execution of any trust, whether express, implied or constructive, to which any of its shares are subject and whether or not the company had notice of such trust. Accordingly, persons holding shares through a trustee, nominee or depository will not be recognised as members of a Cayman Islands company under Cayman Islands law and may only have the benefit of rights attaching to the shares or remedies conferred by law on members through or with the assistance of the trustee, nominee or depository.

4. Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

5. Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment out of capital is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

6. Dividends and distributions

With the exception of section 34 of the Cayman Companies Law, there is no statutory provision relating to the payment of dividends. Based upon English case law, which is regarded as persuasive authority in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph (2) above for further details).

7. Protection of minorities

The court would ordinarily be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal; (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by a company's memorandum and articles of association.

The Cayman Companies Law provides that the court may, upon application of members holding not less than twenty per cent of the issued shares of a Cayman Islands company, appoint one or more inspectors to investigate the affairs of the company and to report on the court in such manner as the court may direct. The inspectors shall on the completion of their investigation report to the court. Such report is not, unless the court so directs, opened to public inspection. A company also may, by special resolution, appoint inspectors for the purpose of examining into the affairs of the company. Inspectors appointed by a company's special resolution will have the same powers and perform the same duties as inspectors appointed by the court,

except that instead of making their report to the court they will report in such manner and to such persons as the company by resolution of its members directs.

8. Management

The Cayman Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Cayman Companies Law contains no specific provision in respect of the establishment or composition of audit committees or similar committees.

9. Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

10. Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

11. Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (b) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

12. Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

13. Loans to directors

There is no express provision in the Cayman Companies Law prohibiting the making of loans by a company to any of its directors.

14. Inspection of corporate records

Members of a company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of a company. They will, however, have such rights as may be set out in the company's articles of association.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

15. Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the court therein, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full), and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

If a voluntary winding up continues for more than a year, the liquidator shall summon a general meeting of the company at the end of the first year and of each succeeding year from the commencement of the winding up, or as soon thereafter as may be convenient, and shall lay before such meeting an account showing their acts and dealings and the manner in which the winding up has been conducted during the year.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Cayman Companies Law) or otherwise as the Registrar of Companies may direct.

16. Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the court. Whilst a dissenting shareholder would have the right to express to the court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

17. Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety per cent. (90%) in value of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the court within one month of the date of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

18. Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

APPENDIX C

SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

The following is a summary of the relevant PRC laws and regulations which the Company's subsidiaries in the PRC are subject to:

The PRC legal system

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council of the PRC is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council of the PRC are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the people's congresses of provinces and municipalities directly under the central government and their standing committees may enact local rules and regulations and the people's government may promulgate administrative rules and directives applicable to their own administrative area. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level by the State Council of the PRC or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the 全国人民代表大会常务委员会关于加强法律解释工作的决议 (Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws) passed on 10 June 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings apart from its power to issue specific interpretation in specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations which they promulgated. At the regional level, the power to give interpretation of regional laws is vested in the regional legislative and administration organs which promulgate such laws. All such interpretations carry legal effect.

Judicial system

The People's Courts are the judicial organs of the PRC. Under the 中华人民共和国宪法 (PRC Constitution) and the 中华人民共和国人民法院组织法 (Law of Organisation of the People's Court of the People's Republic of China), the People's Courts comprise the Supreme People's Court, the local people's courts, military courts and other special people's court. The local people's courts are divided into three levels, namely, the basic people's courts, intermediate people's courts and higher people's court. The basic people's courts are divided into civil, criminal, administrative and economic divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and, where the circumstances so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of people's courts at lower levels are subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the proceedings of people's courts of the same and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts of all levels.

The people's courts adopt a two-tier final appeal system. A party may before the taking effect of a judgment or order appeal against the judgment or order of the first instance of a local people's court to the people's court at

the next higher level. Judgments or orders of the second instance of the same level and at the next higher level are final and binding. Judgments or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by the 中华人民共和国民事诉讼法 (Civil Procedure Law of the People's Republic of China) (the "Civil Procedure Law") adopted on 9 April 1991. The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction of the people's courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the jurisdiction of the people's court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. A foreign national or foreign enterprise is accorded the same litigation rights and obligations as a citizen or legal person of the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the people's court to enforce the judgment, order or award. There are time limits on the right to apply for such enforcement. Where at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other entities, the time limit is six months.

A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exist an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the people's court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

Arbitration and enforcement of arbitral awards

The 中华人民共和国仲裁法 (Arbitration Law of the PRC) (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people's court.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes in the application of laws, an absence of material evidence or irregularities over the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee, etc.

A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognised as such for the purposes of PRC law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award ("New York Convention") adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2nd December, 1986. The New York Convention provides that all arbitral awards made by a state which is party to the New York Convention shall be recognised and enforced by

other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC at the time of the accession of the PRC that (1) the PRC would only recognise and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

Foreign exchange control

(a) Overview of the Foreign Exchange policy

Major reforms have been introduced on the foreign exchange control system of the PRC since 1993.

The People's Bank of China, with the authorisation of the State Council, issued on 28 December 1993 the 中国人民银行关于进一步改革外汇管理体制的通知 (Notice on the Further Reform of the Foreign Exchange Control System) and on 26 March 1994 the 结汇, 售汇及付汇管理暂行规定 (Provisional Regulations on the Settlement, Sale and Payment of Foreign Exchange) which came into effect on 1 April 1994 respectively. On 29 January 1996, the 中华人民共和国外汇管理条例 (State Council promulgated the PRC Foreign Exchange Administration Regulations) which took effect on 1 April 1996. On 20 June 1996, the PBOC issued the 结汇, 售汇及付汇管理规定 (Administration Regulations on the Settlement, Sale and Payment of Foreign Exchange), which took effect on 1 July 1996. On 25 October 1998, the People's Bank of China and the State Administration for Foreign Exchange issued a Joint Announcement on Abolishment of Foreign Exchange Swap Business which stated that from 1 December 1998, all foreign exchange transactions for FIEs may only be conducted through authorised banks.

These regulations contain detailed provisions regulating the holding, sale and purchase of foreign exchange by individuals, enterprises, economic bodies and social organisations in the PRC.

Under the new regulations, the previous dual exchange rate system for RMB was abolished and a unified floating exchange rate system based largely on supply and demand was introduced. The People's Bank of China, having regard to the trading prices between RMB and major foreign currencies on the inter-bank foreign exchange market, publishes on each bank business day the RMB exchange rates against major foreign currencies. In general, all organisations and individuals within the PRC, including foreign investment enterprises, are required to remit their foreign exchange earnings to the PRC. In relation to PRC enterprises, their recurrent foreign exchange earnings are generally required to be sold to designated banks unless specifically approved otherwise. Foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises), on the other hand, are permitted to retain certain percentage of their recurrent foreign exchange earnings and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks. Capital foreign exchanges earnings must be deposited into foreign exchange bank accounts maintained with designated banks and can generally be retained in such accounts.

At present, control on the purchase of foreign exchange is being relaxed. Enterprises which require foreign exchange for their current activities such as trading activities and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents without the need for any prior approvals of the 国家外汇管理局 (State Administration of Foreign Exchange).

In addition, where an enterprise requires any foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as the distribution of profits by a foreign investment enterprise to its foreign investment party, then, subject to the due payment of tax on such dividends the amount required may be withdrawn from funds in foreign exchange accounts maintained with designated banks, and where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks upon the presentation of the resolutions of the board of directors on the profit distribution plan of that enterprise.

Despite the relaxation of foreign exchange control over current account transaction, the approval of the foreign exchange administration authority is still required before a PRC enterprise may borrow a loan in foreign currency or provide any foreign exchange guarantee or make any investment outside of the PRC or to enter into any other capital account transaction involving the purchase of foreign exchange

When conducting actual foreign exchange transactions, the designated banks may, based on the exchange rate published by the People's Bank of China and subject to certain limits, freely determine the applicable exchange rate.

The China Foreign Exchange Trading Centre (“CFETC”) was formally established and came into operation in April 1994. CFETC has set up a computerised network with sub-centres in several major cities, thereby forming an interbank market in which designated PRC banks can trade in foreign exchange and settle their foreign currency obligations. Prior to 1 December 1998, enterprises with foreign investment may at their own choice enter into exchange transactions through Swap Centre or through designated PRC banks. From 1 December 1998 onwards, exchange transactions will have to be conducted through designated banks. Swap Centres became restricted to conducting foreign exchange transactions between authorised banks and inter-bank lending between PRC banks.

(b) Material Measures

国家外汇管理局 (The State Administration of Foreign Exchange) achieves its targets mainly through a foreign exchange registration system and account categorization system.

- Foreign Exchange Registration

An overseas-invested business should, within 30 days after obtaining the business license, apply for going through the procedure of foreign exchange registration, obtaining 境外投资外汇登记证 (a Foreign Exchange Registration Certificate for Overseas-invested Businesses and a foreign exchange account IC).

- Control over Foreign Exchange Accounts

An overseas-invested business may open accounts at a bank after going through the foreign exchange registration procedure. The major types of foreign exchange accounts are capital account, settlement account and special account.

1. Foreign Exchange Capital Account

The receipts on this account are registered capital funds injected by Chinese party and its foreign counterpart in the form of foreign exchange, while the expenditure is foreign exchange expenses of the enterprise concerned under current account and expenses under capital account approved by 国家外汇管理局 (The State Administration of Foreign Exchange).

2. Foreign Exchange Settlement Account

The receipts on this account are current account earnings of an enterprise, while the expenditure on this account is the current account expenses of an enterprise plus the capital account expenses. The ceiling amount on this account is to be set by 国家外汇管理局 (The State Administration of Foreign Exchange) by taking into consideration the actually invested capital of a business and its current-account capital fund needs. The amount of foreign exchange in excess of the ceiling should be sold to specifically appointed foreign exchange banks.

3. Special Account for Loaning and Repaying

The receipts on this account are foreign debts, loans converted from foreign debts and foreign exchange loans borrowed from Chinese financial institutions within the border of China, while the expenditure is expenses for purposes specified in the loan agreement and no permission by 国家外汇管理局 (The State Administration of Foreign Exchange) is required.

4. The expenditure on the special loan repayment account is foreign exchange bought with RMB with approval, foreign exchange bonuses transferred from approved special account for loans and foreign exchange earnings retained with approval. The expenditure on this account is repayments for the principal and interests of debts and relevant cost. Each item of expense is subject to approval by 国家外汇管理局 (The State Administration of Foreign Exchange).

5. Special Provisional Accounts

For special provisional accounts opened by a legal person or a natural person from outside the Chinese border, the receipts are funds in foreign exchange remitted by them into China to prepare for the establishment of overseas-invested businesses. The expenditure is the set-up cost and other relevant cost in making preparations for the establishment of overseas-invested businesses.

6. When an overseas-invested enterprise collects or pays money through a foreign exchange account outside of China, it is obliged to comply with the relevant regulations of the country or region where they have opened the account.

(c) Guidelines to overseas-invested enterprises

- Control over foreign exchange receipts and expenditure under current account

The foreign exchange earnings of an overseas-invested business under current account must be deposited in the foreign exchange settlement account with a ceiling amount approved by 国家外汇管理局 (The State Administration of Foreign Exchange) or settled and sold to specifically appointed banks. When an overseas-invested business makes current account payment in foreign exchange, it only needs to show proofs of the authenticity of the deal to the financial institution paying the foreign exchange, which will verify the proofs.

- Control over foreign exchange receipts and expenditure under capital account

The foreign exchange receipts of an overseas-invested enterprise under capital account must, according to relevant regulations, be remitted into China and deposited in special foreign exchange accounts and can not be deposited outside of China without the permission of the administrative departments in charge of foreign exchange control. Conversion of capital account foreign exchange into RMB is subject to approval by 国家外汇管理局 (The State Administration of Foreign Exchange).

Foreign exchange earnings of overseas-invested enterprises under capital account has to be remitted into China, according to relevant regulations, and deposited in foreign exchange special accounts and can't be deposited outside China without the permission of foreign exchange administrative authorities. Conversion of foreign exchanges under capital account into RMB yuan is subject to approval by 国家外汇管理局 (The State Administration of Foreign Exchange).

The foreign exchange expenses of an overseas-invested business under capital account must be approved by 国家外汇管理局 (The State Administration of Foreign Exchange). In making payments in foreign exchange, the business must first of all use its own money. Only when it is insufficient or when the business concerned does not own any foreign exchange under its name can it apply to the Administration of Foreign Exchange Control for purchase of foreign exchange by presenting approval documents given by 国家外汇管理局 (The State Administration of Foreign Exchange).

Taxation

- (a) Under the current tax system in China, there are 25 types of taxes, which, according to their nature and function, can be divided into the following 8 categories:

- (i) Category of turnover taxes. It includes 3 kinds of taxes, namely, 增值税 (Value - Added Tax), 消费税 (Consumption Tax) and 营业税 (Business Tax). The levy of these taxes is normally based on the volume of turnover or sales of the taxpayers in the manufacturing, circulation or service sectors.
- (ii) Category of income taxes. It includes 企业所得税 (Enterprise Income Tax) (applicable to such domestic enterprises as state-owned enterprises, collectively-owned enterprises, private enterprises, joint operation enterprises and joint equity enterprises), 外商投资企业和外国企业所得税 (Income Tax on Enterprises with Foreign Investment and Foreign Enterprises), and 个人所得税 (Individual Income Tax). These taxes are levied on the basis of the profits gained by producers or dealers, or the income earned by individuals.
- (iii) Category of resource taxes. It consists of 资源税 (Resource Tax) and 城镇土地使用税 (Urban and Township Land Use Tax). These taxes are applicable to the exploiters engaged in natural resource exploitation or to the users of urban and township land. These taxes reflect the chargeable use of state-owned natural resources, and aim to adjust the different profits derived by taxpayers who have access to different availability of natural resources.
- (iv) Category of taxes for special purposes. These taxes are 城市维护建设税 (City Maintenance and Construction Tax), 耕地占用税 (Farmland Occupation Tax), 固定资产投资方向调节税 (Fixed Asset Investment Orientation Regulation Tax) 土地增值税 土地增值税 and 土地增值税 (Land Appreciation Tax). These taxes are levied on specific items for special regulative purposes.
- (v) Category of property taxes. It compasses 房产税 (House Property Tax), 城市房地产税 (Urban real Estate Tax), and 遗产税 (Inheritance Tax) (not yet levied).
- (vi) Category of behaviour taxes. It includes 车船使用税 (Vehicle and Vessel Usage Tax), 车船使用牌照税 (Vehicle and Vessel Usage License Plate Tax), 印花税 (Stamp Tax), 契税 (Deed Tax), (证券交易税) Securities Exchange Tax (not yet levied), 屠宰税 (Slaughter Tax) and 筵席税 (Banquet Tax). These taxes are levied on specified behaviour.

- (vii) Category of agricultural taxes. The taxes belonging to this category are 农业税 (Agriculture Tax) (including Agriculture specialty Tax) and 牧业税 (Animal Husbandry Tax), which are levied on the enterprises, Units and/or individuals receiving income from agriculture and animal husbandry activities.
 - (viii) Category of 海关关税 (customs duties). Customs Duties are imposed on the goods and articles imported into and exported out of the territory of the People's Republic of China.
- (b) For the time being, the State Organisations having authority to formulate tax laws or tax policy mainly include the National People's Congress and its Standing Committee, the State Council, the Ministry of Finance, the State Administration of Taxation, the Tariff and Classification Committee of the State Council, and the General Administration of Customs.
- (i) Tax laws are enacted by the National People's Congress, e.g., the Individual Income Tax Law of the People's Republic of China; or enacted by the Standing Committee of the National People's Congress, e.g., the Tax Collection and Administration Law of the People's Republic of China.
 - (ii) The administrative regulations and rules concerning taxation are formulated by the State Council, e.g., the Detailed Rules for the Implementation of the Tax Collection and Administration Law of the People's Republic of China, the Detailed Regulations for the Implementation of the Individual Income Tax Law of the People's Republic of China, the Provisional Regulations of the People's Republic of China on VAT.
 - (iii) The departmental rules concerning taxation are formulated by the Ministry of Finance, the State Administration of Taxation, the Tariff and Classification Committee of the State Council, and the General Administration of Customs, e.g., the Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on VAT, the Provisional Measures for Voluntary Reporting of the Individual Income Tax.
- (c) The applicable income tax laws, regulations, notices and decisions (collectively referred to as "Applicable Foreign Enterprises Tax Law") related to foreign investment enterprises and their investors include the following:
- (i) 中华人民共和国外商投资企业和外国所得税法 (Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises) adopted by the NPC on 9 April 1991
 - (ii) 中华人民共和国外商投资企业和外国企业所得税法实施细则 (Implementing Rules of the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises) promulgated by the State Council, which came into effect on 1 July 1991
 - (iii) 国家税务总局关于外商投资企业/外国企业和外籍个人取得股票(股权)转让收益和股息所得税收问题的通知 (Notice Relating to taxes Applicable to Foreign Investment Enterprises/Foreign Enterprises and Foreign Nationals in Relations to Dividends and Gains obtained from Holding and Transferring of Shares) promulgated by State Tax Bureau on 21 July 1993
 - (iv) 关于个人所得税若干政策问题的通知 (Notice on Relevant Policies Concerning Individual Income Tax) issued by Ministry of Finance and the State Tax Bureau on 13 May 1994
 - (v) Income tax on foreign investment enterprises

According to the Applicable Foreign Enterprises Tax Law, foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises established in the territory of the PRC) is required to pay a national income tax at a rate of 30 per cent. of their taxable income and a local income tax at a rate of three per cent. of their taxable income.

A foreign investment enterprise engaged in production having a period of operation of not less than ten years shall be exempted from income tax for the first two profit-making years and a 50 per cent. Reduction in the income tax payable for the next three years. The income tax concession for foreign investment enterprises engaged in the exploitation of resources such as petroleum, natural gas, rare metals and precious metals is regulated separately by the State Council.

Foreign investment enterprises established in special economic zones, foreign enterprises having an establishment in special economic zones engaged in production or business operations and foreign investment enterprises engaged in production in economic and technological zones may pay income tax at a reduced rate of 15 per cent. Foreign investment enterprises engaged in production established in

coastal economic open zones or in the old urban districts of cities where the special economic zones or the economic and technological development zones are located may pay income taxes at a reduced rate of 24 per cent. A reduced income tax rate of 15 per cent. may apply to an enterprise located in such regions which are engaged in energy, communication, harbour, wharf or other projects encouraged by the State.

Losses incurred in a tax year may be carried forward for not more than five years.

The people's governments of provinces, autonomous regions and directly administered municipalities directly under the central government may grant exemptions from or reduced local income tax for a foreign investment enterprise engaged in an industry or a project encouraged by the State.

(vi) Value added tax

The 中华人民共和国增值税暂行条例 (Provisional Regulations of the People's Republic of China Concerning Value Added Tax) promulgated by the State Council came into effect on 1 January 1994. Under these regulations and the 中华人民共和国增值税暂行条例实施细则 (Implementing Rules of the Provisional Regulations of the People's Republic of China Concerning Value Added Tax), value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Value added tax payable in the PRC is charged on an aggregated basis at a rate of 13 or 17 per cent. (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17 per cent. On the charges for the taxable services provided but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year. On 13 October 2003, the Ministry of Finance and the State Administration of Taxation ("SAT") of the PRC announced a reduction of the VAT export refund rate from 17 per cent. to 13 per cent. This reduction, which took effect from 1 January 2004, created additional VAT costs for producers who manufacture goods in the PRC for export. Broadly speaking, such additional VAT costs amounted to 4 per cent. of the PRC-sourced materials used in the exported goods.

(vii) Business Tax

With effect from 1 January 1994, businesses that provide services (except entertainment businesses, which are subject to business tax ranging up to a rate of 20 per cent), assign intangible assets or sell immovable property are liable to business tax at a rate ranging from three to five per cent. of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

(viii) Tax on dividends from PRC enterprise with foreign investment

According to the Applicable Foreign Enterprises Tax Law, income such as dividends and profits distribution from the PRC derived from a foreign enterprise which has no establishment in the PRC is subject to a 20 per cent. Withholding tax, subject to reduction as provided by any applicable double taxation treaty, unless the relevant income is specifically exempted from tax under the Applicable Foreign Enterprises Tax Law. The profit derived by a foreign investor from a PRC enterprise with foreign investment is exempted from PRC tax according to the Applicable Foreign Enterprises Tax Law.

(ix) The second 关于修改中华人民共和国个人所得税法的决定 (Amendment to the Income Tax Law Applicable to Individuals of the PRC) promulgated by Standing Committee of NPC on 30 August 1999.

Wholly foreign-owned enterprise

Wholly foreign-owned enterprises are governed by the 中华人民共和国外资企业法 (Law of the People's Republic of China Concerning Enterprises with Sole Foreign Investments), which was promulgated on 12 April 1986 and was revised on 31st October 2000, and its Implementation Regulations promulgated on 12 December 1990 (amended as from 24 April 2001) (together the "Foreign Enterprises Law").

(a) Procedures for establishment of a wholly foreign-owned enterprise

The establishment of a wholly foreign-owned enterprise will have to be approved by MOC (originally MOFTEC) or its delegated authorities. If two or more foreign investors jointly apply for the establishment

of a wholly foreign-owned enterprise, a copy of the contract between the parties must also be submitted to MOC (or its delegated authorities) for its record. A wholly foreign-owned enterprise must also obtain a business licence from SAIC before it can commence business.

(b) Nature

A wholly foreign-owned enterprise is a limited liability company under the Foreign Enterprise Law. It is a legal person which may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital contributed. A foreign investor may make its contributions by instalments and the registered capital must be contributed within the period as approved by MOC (or its delegated authorities) in accordance with relevant regulations.

(c) Profit distribution

The Foreign Enterprise Law provides that after payment of taxes, a wholly foreign-owned enterprise must make contributions to a reserve fund and an employee bonus and welfare fund. The allocation ration for the employee bonus and welfare fund may be determined by the enterprise. However, at least 10 per cent of the after tax profit must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50 per cent of an enterprise's registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

Environmental Protection Regulations

In accordance with the Environmental Protection Law of the PRC adopted by the Standing Committee of the NPC on 26 December 1989, the Administration Supervisory Department of Environmental Protection of the State Council sets the national guidelines for the discharge of pollutants. The provincial and municipal governments of provinces, autonomous regions and directly administered municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have caused severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalised or have their business licences terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate any losses or damages suffered as a result of such environmental pollution.

Food Safety and Hygiene Laws and Regulations

(a) Food Hygiene Law

On 30th October, 1995, the Standing Committee of the National People's Congress of the PRC (the "NPC") (全国人民代表大会常务委员会) issued the Food Hygiene Law of the PRC (the "Food Hygiene Law") (中华人民共和国食品卫生法), pursuant to which all institutions and individuals in the PRC engaged in food production and trade should comply with the Food Hygiene Law, which stipulates the hygienic requirements

and standards for food, the additives, containers, wrappers of food as well as the sites, facilities and environmental conditions for food production and trade.

The Ministry of Health (the “MOH”) (卫生部) is responsible for the overall supervision and control of public hygiene in China. Local bureaus of health in the PRC are responsible for implementation of the MOH’s instructions, including but not limited to, examination of entities engaged in food production and trade and issue of the relevant licenses and certificates.

All entities should conduct food production and trade in the PRC in compliance with the hygienic requirements and standards stipulated under the Food Hygiene Law. The sale and production of food which fail to reach such hygienic standards and requirements will be prohibited in the PRC. All food producers in the PRC are required to obtain a hygiene license from the local bureaus of health before they register with the relevant administrative authorities for industry and commerce.

Rules concerning the issue of such hygiene license may be enacted by the local governments. On 17th July, 2002, the Department of Health of Guangdong province (广东省卫生厅) issued the Rule Relating to the Issue of Hygiene License in Guangdong Province (the “Rules”) (广东省食品卫生许可证发放管理办法). Pursuant to the Rules, each entity engaged in food production and trade in Guangdong province is required to obtain from the hygiene administrative authorities of the governments at the county level and above a hygiene license which only has a limited period of validity, and to apply for the re-issue of a new hygiene license, failing which the entity will be prohibited from producing and selling food. Penalties for the breach of the Food Hygiene Law include imposition of a fine, confiscation of illegal gains and termination of production.

(b) Food Production

On 18th July 2003, General Administration of Quality Supervision, Inspection and Quarantine (国家质量监督检验检疫总局) issued the Measure for Quality Supervision and Administration of the Food Production and Processing Enterprises (the “Measure”) (食品生产加工企业质量安全监督管理办法). The Measure established the rules on the market access of the food industry. According to the Measure, the food production enterprises shall pass the examination before mass production, and all finished product shall pass inspection before entering into the market. All finished product which have passed the inspection shall attach a “Quality Safety Label” (QS Label).

General Administration of Quality Supervision, Inspection and Quarantine has required five categories of food, being rice, wheat flour, oil, soy source and vinegar, to be in compliance with the rules on market access since May 2002. After 1 January 2004, all the enterprises producing the above said five categories of food shall have obtained the Food Production Certificate (食品生产许可证) (the “Certificate”). Any food in the above said five categories produced by an enterprise without the Certificate will be prohibited to enter into the market.

From the third quarter of 2003, General Administration of Quality Supervision, Inspection and Quarantine has started to required ten more categories of food, being meat, dairy products, soft drinks, condiments, refrigerant drinks, instant noodles, biscuits, can, deep frozen food, swelling food, to be in compliance with the rules on the market access.

On 23rd December, 2004, General Administration of Quality Supervision, Inspection and Quarantine issued a notice which required 13 more categories of food, being candy, tea, wine and fruit alcohol, beer, yellow wine, pickles, confect, roasted seeds and nuts, egg-made food, cocoa-made food, baked and fried coffee, aquatic product, starch and starch related products, to obtain the Certificate.

APPENDIX D

COMPARISON OF CAYMAN ISLANDS COMPANY LAW WITH SINGAPORE COMPANY LAW

The following table sets forth a summary of certain differences between the provisions of the laws of Cayman Islands applicable to the Company (namely, under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Cayman Companies Law”)) and the laws applicable to Singapore companies (namely, under the Companies Act, Chapter 50 of Singapore (the “Singapore Companies Act”) and their shareholders. The summaries below are not to be regarded as advice on Cayman Islands company law or the differences between it and the laws of any jurisdiction, including, without limitation, the Singapore Companies Act. The summaries below do not purport to be a comprehensive description of all of the rights and privileges of shareholders conferred by Cayman Islands company law as compared to the Singapore Companies Act that may be relevant to prospective investors. In addition, prospective investors should also note that the laws applicable to Singapore companies and Cayman Islands exempted companies may change, whether as a result of proposed legislative reforms to the Singapore Companies Act or the Cayman Companies Law, as the case may be, or otherwise. In addition, the summaries below do not describe the regulations and requirements prescribed by the Listing Manual of the SGX-ST. Prospective investors are advised to seek independent legal advice.

Cayman Islands company law

Singapore company law

Power of Directors to Allot and Issue Shares

The power to allot shares normally lies with the directors. Cayman Islands has no statutory provisions regulating the issue of shares. There is also no requirement for filing of returns of allotments.

The power to issue shares in a company is usually vested with the directors of that company subject to any restrictions in the articles of association of that company.

However, notwithstanding anything to the contrary in the memorandum or articles of association of a company, prior approval of the company at a general meeting is required to authorise the directors to exercise any power of the company to issue shares, or the share issue is void under the Singapore Companies Act. Such approval need not be specific but may be general and, once given, will only continue in force until the conclusion of the next annual general meeting or the expiration of the period within which the next annual general meeting is required by law to be held, whichever is the earlier.

Power of Directors to Dispose of the Issuer’s or Any of its Subsidiaries’ Assets

The management of a Cayman Islands exempted company is the responsibility of and is carried on by its board of directors. Except as may be expressly provided in the company’s articles of association, the shareholders can exercise control over the management of the company through their power to appoint and dismiss its directors.

The Cayman Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Singapore Companies Act provides that the business of a company is to be managed by or under the direction of the directors. The directors may exercise all the powers of a company except any power that the Singapore Companies Act or the memorandum and articles of association of the company require the company to exercise in general meeting.

Under the Singapore Companies Act, prior approval of the company at a general meeting is required before the directors can carry into effect any proposals for disposing of the whole or substantially the whole of the company’s undertaking or property, notwithstanding anything in a company’s memorandum or articles of association.

Giving of Financial Assistance to Purchase the Issuer's or its Holding Company's shares

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by an exempted company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, an exempted company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

Related party transactions

Generally, a company is prohibited from giving financial assistance to any person directly or indirectly for the purpose of, or in connection with, the acquisition of that company's shares or shares in its holding company.

Financial assistance includes the making of a loan, the giving of a guarantee, the provision of security, and the release of a debt or obligation.

Certain transactions are specifically provided by the Singapore Companies Act not to be prohibited. These include the payment of a dividend in good faith and in the ordinary course of commercial dealing, the payment by a company pursuant to a reduction of capital in accordance with the Singapore Companies Act, the giving by a company in good faith and in the ordinary course of commercial dealing of any representation, warranty or indemnity in relation to an offer to the public of, or an invitation to the public to subscribe for or purchase shares in the company, and the entering into by the company, in good faith and in the ordinary course of commercial dealing, of an agreement with a subscriber for shares in the company permitting the subscriber to make payments for the shares by instalments.

The Singapore Companies Act further provides that a company can give financial assistance in certain circumstances: (i) where the amount of financial assistance does not exceed 10.0% of the aggregate of the total paid-up capital and reserves of the company as disclosed in the most recent financial statements of the company and the company receives fair value in connection with the financial assistance; and (ii) where the financial assistance is approved unanimously by the shareholders of the company, if certain conditions and procedures under the Singapore Companies Act are complied with. Where the company is a subsidiary of a listed corporation or a subsidiary whose ultimate holding company is incorporated in Singapore, the listed corporation or the ultimate holding company, as the case may be, is also required to pass a special resolution to approve the giving of the financial assistance.

The Singapore Companies Act does not impose compliance requirements relating to transactions with interested shareholders. The compliance requirements imposed on a company listed on the SGX-ST under the Listing Manual of the SGX-ST, insofar as transactions with interested persons are concerned, apply to that company regardless of whether such company is incorporated in Singapore or elsewhere.

Cayman Islands company law

Loans to Directors

There is no express provision in the Cayman Companies Law prohibiting the making of loans by an exempted company to any of its directors.

Singapore company law

A company (other than an exempt private company) is prohibited from making a loan to a director of the company or a director of a related company (and to the spouse or natural, step or adopted children of any such director), and from giving a guarantee or providing any security in connection with such a loan, except in the following circumstances:

- (subject to, inter alia, the approval of the company in a general meeting) the provision of funds to such a director to meet expenditure incurred or to be incurred for the purposes of the company or for the purpose of enabling him properly to perform his duties as an officer of the company;
- (subject to, inter alia, the approval of the company in a general meeting) a loan to a director in full time employment of the company or a related company for the purpose of purchasing or otherwise acquiring a home occupied or to be occupied by that director; however, not more than one such loan may be outstanding from the director at any one time;
- any loan to a director in full time employment of the company or a related company pursuant to an employee loan scheme approved in a general meeting, provided the loan is in accordance with that scheme; and
- a loan made in the ordinary course of business by a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons if the activities of that company are regulated by any written law relating to banking, finance companies or insurance or are subject to supervision by the Monetary Authority of Singapore (“MAS”).

For these purposes, a related company of a company means its holding company, its subsidiary and a subsidiary of its holding company.

A company (the “first mentioned company”) (other than an exempt private company) is also prohibited from making loans to connected persons or entering into any guarantee or providing any security in connection with a loan made to connected persons by a third-party. Connected persons of the first mentioned company include companies in which the director(s) (and his spouse or natural, step or adopted children) of the first mentioned company, individually or collectively, have an interest in 20% or more (as determined in accordance with the Singapore Companies Act). This prohibition does not apply to:

Cayman Islands company law

Transaction affecting share capital

The Cayman Companies Law contains provisions relating to reduction of share capital, redemption and repurchase of shares.

Mergers and Similar Arrangements

There are Cayman Islands statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the court. Whilst a dissenting shareholder would have the right to express to the court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

Remuneration

There is no provision in the Cayman Companies Law regulating remuneration for directors.

Singapore company law

- anything done by a company where the other company is its subsidiary, holding company or a subsidiary of its holding company; or
- a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, to anything done in the ordinary course of that business if the activities of that company are regulated by any written law relating to banking, finance companies or insurance or are subject to supervision by the MAS.

The Singapore Companies Act contains provisions relating to share capital reductions, permitted share buy-backs and redeemable preference shares.

Mergers

The Singapore Companies Act provides that the Singapore courts have the authority, in connection with a scheme for the reconstruction of any company or companies or the amalgamation of any two or more companies and that under the scheme the whole or any part of the undertaking or the property of any company concerned in the scheme (the transferor company) is to be transferred to another company (the transferee company), to order the transfer to the transferee company of the whole or any part of the undertaking and of the property or liabilities of the transferor company. Such power only exists in relation to companies incorporated in Singapore.

The Singapore Companies Act further provides for a voluntary amalgamation process without the need for a court order. Under this voluntary amalgamation process, two or more companies may amalgamate and continue as one company, which may be one of the amalgamating companies or a new company, in accordance with the procedures set out in the Singapore Companies Act. As part of these procedures, the board of directors of each of the amalgamating company must make a solvency statement in relation to both the amalgamating company and the amalgamated company.

The Singapore Companies Act provides that a company shall not provide emoluments or improve emoluments for a director in respect of his office unless the provision has been approved by a resolution that is not related to other matters, and any resolution passed in breach of this provision is void.

Cayman Islands company law

Disclosure of Interest in Contracts with the Company

There is no provision under the Cayman Companies Law relating to directors in a position of conflict of interest. The common law principle that a director must not put himself in a position of conflict between his personal interest and his duty to the company will apply to the directors of the Company.

Appointment, qualification, retirement, resignation and removal of directors

Qualification and Appointment of Directors

There must be at least one director of a Cayman Islands exempted company. There is no requirement that any of the directors be ordinarily resident in the Cayman Islands.

The initial director(s) is(are) appointed by the subscriber(s) to the memorandum of association. Thereafter, the addition and/or removal of directors will normally be effected in accordance with the provisions of the company's articles of association.

The names and addresses of the directors and officers must be entered in a register of directors and officers and kept at the registered office. A copy of the register and notice of any amendments must be filed with the Registrar of Companies in the Cayman Islands. There is no requirement that the register of directors and officers be made available for inspection to the public. The Cayman Companies Law does not contain provisions on the retirement age of directors.

Singapore company law

For this purpose, the term "emoluments" in relation to a director includes fees and percentages, expenses allowance in so far as those sums are charged to income tax in Singapore, contributions paid under a pension scheme, and any benefits received otherwise than in cash in respect of his services as a director.

The Singapore Companies Act provides that, where a director of a company is directly or indirectly interested in a transaction or proposed transaction with that company, such a director must, as soon as practicable after the relevant facts have come to his knowledge, declare the nature of his interest at a meeting of directors of the company. For these purposes, an interest of a member of a director's family (this includes his spouse, natural, step or adopted children) is treated as an interest of that director.

The Singapore Companies Act also provides that every director of a company who holds any office or possesses any property whereby whether directly or indirectly duties or interests might be created in conflict with his duties or interests as director shall declare at a meeting of the directors of the company the fact and the nature, character and extent of the conflict. For this purpose, an interest of a member of a director's family shall be treated as an interest of the director.

Qualification and Appointment of Directors

Under the Singapore Companies Act, every company must have at least one director who is ordinarily resident in Singapore. Where the company has only one member, that sole director may be also be the sole member of the company.

No person other than a natural person of full age and capacity can be a director of a company. Every director, who is by the articles of association required to hold a specified share qualification and who is not already qualified, must obtain his qualification within two months after his appointment or such shorter period as is fixed by the articles of association. The first directors of a company are named in the articles of association.

In the case of a public company, the appointment of directors at a general meeting must generally be voted on individually.

In addition, no person of or over the age of 70 years shall be appointed as a director of a public company or of a subsidiary of a public company, unless he has been appointed, re-appointed or authorised to continue in office as a director by an ordinary

Cayman Islands company law

Disqualification of directors

The Cayman Companies Law does not contain provisions on disqualification of directors. The circumstances under which a person is disqualified from acting as a director will be as provided in the company's articles of association.

Resignation of directors

The Cayman Companies Law does not contain provisions on resignation of directors.

Singapore company law

resolution passed at an annual general meeting of the company until the next annual general meeting of the company.

Subject to the provisions of the Singapore Companies Act, the articles of association of a company may also empower the board of directors to appoint any director to fill a casual vacancy or as an additional director.

Under the Singapore Companies Act, a person may not act as a director of any corporation if he is an undischarged bankrupt unless he has the leave of the Singapore courts or the written permission of the Official Assignee to do so.

A person may be disqualified from acting as a director of a company by the Singapore courts for a period not exceeding five years if (a) he is or has been a director of a company which has at any time gone into liquidation (whether while he was a director or within three years of his ceasing to be a director) and was insolvent at that time and (b) his conduct as a director of that company either taken alone or taken together with his conduct as a director of any other company or companies makes him unfit to be a director of or in any way, whether directly or indirectly, be concerned in, or take part in, the management of a company.

A person may, subject to certain exceptions, also be disqualified from acting as a director by the Singapore courts for a period of three years if he is a director of a company which is ordered to be wound up by the Singapore courts on the ground that it is being used for purposes against national security or interest.

He could also be disqualified on other grounds, such as conviction of any offence (whether in Singapore or elsewhere) involving fraud or dishonesty which is punishable with imprisonment for three months or more, or because of persistent default in relation to delivery of documents to the Registrar of Companies.

Under the Singapore Companies Act, a director of a company cannot resign or vacate his office unless there is remaining in the company at least one director who is ordinarily resident in Singapore, and any purported resignation or vacation of office in breach of this provision is deemed to be invalid.

Subject to the provisions of the Singapore Companies Act, the articles of association of a company may provide that a director's resignation is effective by giving written notice of the company, unless the director's contract or the articles of association otherwise provide.

Removal of directors

The Cayman Companies Law does not contain provisions on removal of directors. Removal of directors will normally be effected in accordance with the provisions of the company's articles of association.

A director of a public company may be removed before the expiration of his period of office by an ordinary resolution (which requires special notice to be given in accordance with the provisions of the Singapore Companies Act) of the shareholders, notwithstanding anything in the memorandum or articles of association of that company or in any agreement between that company and the director, but where the director so removed was appointed to represent the interests of any particular class of shareholders or debenture holders, the resolution to remove him shall not take effect until his successor has been appointed.

Subject to the provisions of the Singapore Companies Act, the articles of association of a company may prescribe the manner in which a director may be removed from office before the expiration of his term of office.

Alteration of constitution, memorandum of association or articles of association

Alteration of memorandum of association

The Cayman Companies Law provides that an exempted company may, by special resolution of its shareholders, alter its memorandum of association with respect to any of the objects, powers or other matters specified therein.

The amended memorandum of association and a copy of the special resolution must be filed with the Registrar of Companies in the Cayman Islands.

Unless otherwise provided in the Singapore Companies Act, a company's memorandum of association may be altered by way of special resolution, except that any entrenching provision in the memorandum and any provision contained in the memorandum before 1 April 2004 which could not be altered before that date may be removed or altered only if all members of the company agree. For these purposes, the term "entrenching provision" means a provision of the memorandum or articles of association of a company to the effect that other provisions of the memorandum or articles (a) may not be altered in the manner provided by the Singapore Companies Act, or (b) may not be so altered except by a resolution passed by a specified majority greater than 75%, or where other specified conditions are met.

Alteration of articles of association

The Cayman Companies Law provides that an exempted company may, by special resolution of its shareholders, but subject otherwise to the memorandum of association, alter or add to its articles of association.

On an amendment of the articles of association, the amended version of the articles of association must be registered with the Registrar of Companies in the Cayman Islands. A copy of the special resolution must be filed with the Registrar.

Subject to the Singapore Companies Act and to any conditions in its memorandum, a company's articles of association may be altered by way of special resolution except that any entrenching provision in the articles of association may be removed or altered only if all members of the company agree.

Cayman Islands company law

Variation of rights of shares

The Cayman Companies Law does not contain provisions determining the action necessary to change the rights of holders of shares. Variation of the rights attached to any class of shares is usually dealt with generally in the articles of association of a company.

Shareholders' Proposals

The Cayman Companies Law provides that, in the absence of any provision in the articles of association as to the persons to summon general meetings, three members shall be competent to summon the same.

Shareholders' Action by Written Consent

Certain matters are required by the Cayman Companies Law to be decided by special resolution. Where so authorised by the articles of association of a company, special resolutions may be approved in writing by all of the members entitled to vote at a general meeting of the company in one or more instruments each signed by one or more of the members.

Singapore company law

Under the Singapore Companies Act, if a provision is made in the memorandum or articles of association of a company for authorising the variation or abrogation of the rights attached to any class of shares in the company and in pursuance of that provision such rights are at any time varied or abrogated, the holders of not less in aggregate than 5% of the issued shares of that class (excluding treasury shares) may apply to the Singapore courts to have the variation or abrogation cancelled in accordance with the Singapore Companies Act. The Singapore courts may, if satisfied that the variation or abrogation would unfairly prejudice the shareholders of the class represented by the applicant, disallow the variation or abrogation, and shall, if not so satisfied, confirm it.

Under the Singapore Companies Act, (a) any number of members representing not less than 5% of the total voting rights of all the members having at the date of requisition a right to vote at a meeting to which the requisition relates or (b) not less than 100 members holding shares on which there has been paid up an average sum, per member, of not less than S\$500, may requisition the company to give to members notice of any resolution which may properly be moved and is intended to be moved at the next annual general meeting, and circulate to members any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

Members holding not less than 10% of the paid up capital of a company may requisition for an extraordinary general meeting in accordance with the provisions of the Singapore Companies Act. The directors must convene the meeting to be held as soon as practicable, but in any case not later than two months, after the receipt by the company of the requisition.

Two or more members holding not less than 10% of the total number of issued shares of a company (excluding treasury shares) may also call a meeting of the company in accordance with the provisions of the Singapore Companies Act.

Notwithstanding any other provision of the Singapore Companies Act, a private company may pass any resolution by written means in accordance with the provisions of the Singapore Companies Act. There is no corresponding provision in the Singapore Companies Act which applies to a public company.

Shareholders' Suits and Protection of Minority Shareholders

The court would ordinarily be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal; (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

The Cayman Companies Law provides that the court may, upon application of members holding not less than twenty per cent of the issued shares of a Cayman Islands company, appoint one or more inspectors to investigate the affairs of the company and to report on the court in such manner as the court may direct. The inspectors shall on the completion of their investigation report to the court. Such report is not, unless the court so directs, opened to public inspection. A company also may, by special resolution, appoint inspectors for the purpose of examining into the affairs of the company. Inspectors appointed by a company's special resolution will have the same powers and perform the same duties as inspectors appointed by the court, except that instead of making their report to the court they will report in such manner and to such persons as the company by resolution of its members directs.

Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so. For further details, please see paragraph 15 headed "Winding up" in Appendix B – Summary of Cayman Islands Company law" of this Prospectus.

A member or a holder of a debenture of a company may apply to the Singapore courts for an order under Section 216 of the Singapore Companies Act to remedy situations where:

- a company's affairs are being conducted or the powers of the company's directors are being exercised in a manner oppressive to, or in disregard of the interests of, one or more of the members, shareholders or holders of debentures of the company, including the applicant; or
- a company has done an act, or threatens to do an act, or the members or holders of debentures have passed some resolution, or propose to pass some resolution, which unfairly discriminates against, or is otherwise prejudicial to, one or more of the company's members or holders of debentures, including the applicant.

Singapore courts have wide discretion as to the relief they may grant under such application, including, inter alia, directing or prohibiting any act or cancelling or varying any transaction or resolution, providing that the company be wound up, or authorising civil proceedings to be brought in the name of or on behalf of the company by such person or persons and on such terms as the Singapore courts directs.

In addition, a member of a company who is seeking relief for damage done to the company may bring a common law derivative action in certain circumstances against the persons who have done wrong to the company.

Further, Section 216A of the Singapore Companies Act prescribes a procedure to bring a statutory derivative action. The statutory procedure is available to, inter alia, a member of a company not listed on the SGX-ST and any other person who, in the discretion of the Singapore courts, is a proper person to make an application under Section 216A of the Singapore Companies Act.

The winding up of a company may be done in the following ways:

- members' voluntary winding up;
- creditors' voluntary winding up;
- court compulsory winding up; and
- an order made pursuant to Section 216 of the Singapore Companies Act for the winding up of the company.

The type of winding up depends, inter alia, on whether the company is solvent or insolvent.

APPENDIX E

SUMMARY OF PRINCIPAL DIFFERENCES BETWEEN SFRS AND US GAAP

Our combined financial statements included in this Prospectus have been prepared and presented in accordance with Singapore Financial Reporting Standards (“SFRS”), which differ in certain significant respects from accounting principles generally accepted in the United States of America (“US GAAP”). As required by US GAAP, such differences involve methods for measuring the amounts shown in the financial statements, as well as additional disclosures that have not been described.

Certain significant differences between SFRS and US GAAP relevant to our combined financial statements are summarised below. This summary should not be construed as being exhaustive. In making an investment decision, investors must rely upon their own examination of our Company, the terms of the Offering and our financial information. Potential investors should consult their own professional advisors for an understanding of the differences between SFRS and US GAAP and how these differences might affect the financial information herein. In addition, no attempt has been made to identify all classification, disclosure and presentation differences between SFRS and US GAAP that would affect the manner in which transactions and events are presented in the combined financial statements or notes thereto. No attempt has been made to identify future differences between SFRS and US GAAP as the result of prescribed changes in standards and regulations. In addition, regulatory bodies that promulgate SFRS and US GAAP have significant projects ongoing that could affect future comparisons of SFRS and US GAAP. Finally, no attempt has been made to identify all future differences between SFRS and US GAAP that may affect our combined financial statements as a result of transactions or events that may occur in the future.

Consolidation

Under SFRS, power to control is considered when determining whether a parent/subsidiary relationship exists. Control is the parent’s ability to govern the financial and operating policies of a subsidiary to obtain benefits. Companies acquired or disposed of are included in or excluded from consolidation from the date control passes. SFRS further requires an entity to also consider the existence and effect of potential voting rights currently exercisable or convertible when assessing if it has control over another entity.

Under US GAAP, consolidation is generally required when one of the companies in a group directly or indirectly has a controlling financial interest in the other companies. The usual condition for controlling financial interest is ownership of a majority of the voting interest and, therefore, as a general rule ownership by one company, directly or indirectly, of over 50% of the outstanding voting shares of another company is a condition pointing towards consolidation. Consolidation of majority-owned subsidiaries is required in the preparation of consolidated financial statements, unless control does not rest with the majority owner.

FASB Interpretation No. 46, “Consolidation of Variable Interest Entities” (FIN 46(R)) further elaborates that an entity is to be considered for consolidation if the entity is a variable interest entity (“VIE”), after assessment of control of its variable interest. FIN 46(R) provides guidance that VIEs in which the parent does not have a controlling interest but that absorbs the majority of the VIEs expected losses or residual returns must be consolidated.

Changes in Accounting Policies

Under SFRS, a change in an accounting policy as a result of the adoption of a newly issued accounting pronouncement is generally reflected through the restatement of all prior periods, except where the standard permits a different transitional treatment.

Under US GAAP, entities making a change in accounting principle to conform to an American Institute of Certified Public Accountants statement of position or practice bulletin, a Financial Accounting Standards Board (“FASB”) technical bulletin, or an Emerging Issues Task Force (“EITF”) consensus shall report the change as specified in the pronouncement. If not specified in the pronouncement, the change shall be reported as specified by Accounting Principles Board Opinion No. 20: “Accounting Changes” (APB 20) which specifies that most discretionary changes in accounting principles should be accounted for by a cumulative catch-up adjustment. Also, APB 20 specifies that certain changes in accounting principle should be reported by retroactive restatement of previous financial statements.

Impairment of Assets

Under SFRS, the recoverable amount of an asset is estimated whenever there is an indication that the asset may be impaired. Measurement of impairment loss is based on the recoverable amount of the asset which is the higher of an asset's net selling price and its value in use based on discounted cashflows. Reversal of an impairment loss is permitted only if there has been a change in the estimates used to determine the recoverable amount of an asset. The reversed amount is limited to an amount not greater than the carrying amount that would have been determined had there been no impairment loss recognized for the asset in prior years. There is no such requirement under SFRS to include accumulated foreign exchange translation differences as part of the carrying amount when evaluating impairment of the net investment in a foreign operation that is held for sale.

Under US GAAP, entities perform an impairment assessment on assets to be held and used to determine whether recognition of an impairment loss is required whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of undiscounted future cashflows before interest charges is less than an asset's carrying value, then the impairment loss must be compute and recognized by the difference between the fair value and the carrying value of the assets, typically computed as the discounted expected future cashflows. SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" requires that for purposes of recognition and measurement of an impairment loss, a long-lived asset should be grouped with other assets and liabilities at the lowest level for which identifiable cashflows are largely independent of the cashflows of other assets and liabilities. Once an impairment is recognized, the reduced carrying amount of the asset is accounted for as its new cost. For a depreciable asset, the new cost is depreciated over the asset's remaining useful life. Restoration of previously recognized impairment losses on assets held for use is prohibited. Under US GAAP, accumulated foreign exchange translation differences should be included as part of the carrying amount when evaluating impairment of the net investment in a foreign operation that is held for sale.

Comprehensive Income

Under SFRS, disclosure is required in a statement of changes in equity of:

- net profit or loss for the period;
- each item of income and expense, gain or loss which, as required by other standards, is recognised directly in equity, and the total of these items; and
- the cumulative effect of changes in accounting policy and the correction of fundamental errors under the benchmark treatments in SFRS 8.

In addition, an entity should present either in this statement or in the notes:

- capital transactions with owners and distributions to owners;
- the balance of accumulated profit or loss at the beginning of the period and at the balance sheet date, and the movements for the period; and
- a reconciliation between the carrying amount of each class of equity capital, share premium and each reserve at the beginning and the end of the period, separately disclosing each movement.

US GAAP establishes standards for reporting and display of comprehensive income and its components in financial statements that are displayed with the same prominence as other financial statements. Comprehensive income is composed of two subsets: "net income" and "other comprehensive income". Comprehensive income includes charges or credits to equity that are not the result of transactions with owners and consists of the following:

- net income;
- unrealised holding gains and losses on available-for-sale securities;
- foreign currency translation adjustments;
- the minimum pension liability in excess of unrecognised prior service costs;
- gains and losses on foreign currency transactions designated as, and effective as, economic hedges of a net investment in a foreign entity;

- gains and losses from derivatives that qualify as cash flow hedges; and
- change in the fair value of a futures contract that qualifies as a hedge of an asset.

Under US GAAP, one of three possible formats may be used for presenting comprehensive income:

- a single primary statement of income and comprehensive income containing both net income and other comprehensive income;
- a two statement approach; or
- a separate category highlighted within the primary statement of changes in equity.

The total of gains and losses recognised in the period comprises net income and the following gains and losses recognised directly in equity:

- available for sale investments and certain financial instruments;
- foreign exchange translation differences; and
- the cumulative effect of changes in accounting policy and changes in fair value on certain financial instruments if designated as cash flow hedges, net of tax and cash flow hedges reclassified to income and/or relevant hedged asset/liability.

Allocation of Finance Costs

Under SFRS, the amortisation of a financial liability and the interest expense is calculated using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial liability. When calculating the effective interest rate, an entity should estimate cash flows considering all contractual terms of the financial instrument. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Under US GAAP, the borrower's periodic interest cost is calculated using the "interest method" based on the estimated outstanding term of the debt. The difference between the present value and face amount should be treated as a premium and amortised as interest expense over the term of the debt. In estimating the term of the debt, the borrower would consider its plans, ability, and intent to service the debt. Debt issue costs should be reported in the balance sheet as deferred charges and amortised (by the interest method) over the same period used in determining interest cost.

Capitalisation of Borrowing Costs

Under SFRS, borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets that necessarily take a substantial period of time to get ready for their intended use) are capitalized as part of the costs of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalization of rate based on the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining qualifying assets, is applied to the expenditure on the assets.

Under US GAAP, only interest costs shall be capitalised as part of the historical cost of acquiring certain assets. Interest costs eligible for capitalization shall be the interest costs recognized on borrowings and other obligations. The amount capitalized is determined by applying an interest rate to the average amount of accumulated expenditures for the asset during the construction or development period. The interest rate for capitalisation purpose is to be based on the rates of the enterprises' outstanding borrowings. If a specific new borrowing is associated with the asset, the rate on that borrowing should be applied to the appropriate portion of the expenditures for the asset. A weighted average of the rates on other borrowings is to be applied to expenditures not covered by specific new borrowings.

Deferred Income Tax

Under SFRS, deferred tax assets and liabilities are presented as non-current in the combined balance sheet.

Under US GAAP, deferred income tax is classified as current or non-current based on the classification of the related asset or liability in the combined balance sheet.

Inventories

Under SFRS, inventories are valued at the lower of cost and net realisable value. Net realisable value is the selling price in the ordinary course of business, less the costs to sell. Reversal (limited to the amount previously written down) is required for a subsequent increase in value of inventory previously written down.

Under US GAAP, inventories are carried at the lower of cost or market value. Market value is defined as being current replacement cost subject to an upper limit of net realisable value (that is estimated selling price in the ordinary course of business less reasonable predictable costs of completion and disposal) and a lower limit of net realisable value less a normal profit margin. Reversal of a write-down is prohibited, as a write-down creates a new cost basis.

Leases

Under SFRS, a lease is defined as an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. However, it does not give specific conditions to be met before a certain agreement can be considered a lease or not. Leases are classified as either a finance (capital) lease or operating lease. A lease is a finance lease when it transfers substantially all the risks and rewards incidental to ownership to the lessee. SFRS 17, "Leases" gives examples of circumstances which may indicate that substantial transfer of risks and rewards has taken place.

Under US GAAP, SFAS No. 13, "Accounting for Leases" (SFAS No. 13) defines a lease as an agreement conveying the right to use of property, plant or equipment usually for a stated period of time. EITF 01-08, "Determining whether an Arrangement Contains a Lease" (EITF 01-08) further elaborates on situations where an arrangement is within the scope of SFAS No. 13. Specifically, EITF 01-08 clarified the meaning of "right to use property, plant or equipment" and "stated period of time." However, EITF 01-08 applied only to arrangements agreed to or committed to, if earlier, after the beginning of an entity's next reporting period beginning after May 28, 2003.

SFAS No. 13 provides four criteria for capital lease treatment. If any one of these criteria is met, the lease must be classified as capital lease. In addition to meeting any one of the four criteria, two further criteria must be met by the lessor in order to treat the lease as capital: (a) the collectibility of the lease payments must be reasonably predictable; and (b) there must no important uncertainties surrounding the amount of non-reimbursable cost yet to be incurred by the lessor.

Cash and Cash Equivalents

Under SFRS, cash and cash equivalents comprise cash-on-hand and at bank, demand deposits and short-term, highly liquid investments which are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents are shown net of outstanding bank overdrafts which are repayable on demand and which form an integral part of the group's cash management. SFRS permit interest and dividends that are paid or received to be classified as part of operating, investing or financing cashflows. Under SFRS, income tax paid should be classified as an operating cash flow unless the tax paid can be specifically identified with financing or investing activities.

Under US GAAP, the definition of cash equivalents does not include advances from banks that are repayable within three months, or overdraft facilities. As a result, movements within overdrafts are reported as part of financing cash flows. Under US GAAP, interest paid, interest received and dividends received are classified as operating activities. US GAAP requires income tax paid to be classified as an operating cash flow.

Segment Reporting

Under SFRS, certain forms of disclosure need to be presented in respect to business and geographical segments, one as primary segment and the other as secondary. The choice depends on business risks and returns and internal reporting structure. Under SFRS, disclosures for primary segment include revenues, results, capital expenditures, total assets and liabilities and other items. Disclosures for secondary segment include revenues, total assets and capital expenditures.

Under US GAAP, disclosure is presented on the basis management organises and reports the business result internally. Under US GAAP, similar disclosures for primary segment are required with the exception of liabilities and geographical capital expenditures. Under US GAAP, depreciation, amortisation, tax, interest and exceptional/extraordinary items are also disclosed, if reported internally. Disclosure of factors used to identify segments is required.

Basis of Preparation of Combined Financial Statements

The combined financial statements of the Group have been prepared in accordance with the principles of merger accounting as the Restructuring Exercise completed is a legal reorganisation of entities under common control. Under this method, the Company has been treated as the holding company of all its subsidiaries for the financial years presented rather than from the date of completion of the Restructuring Exercise. Accordingly, the combined results of the Group for the financial years presented include the results of the subsidiaries for the entire periods under review. The combined financials statements have been prepared solely in connection with the proposed listing of the Company' shares on the SGX-ST for inclusion in the Prospectus as required under the SFR.

US GAAP does not provide guidance on the preparation of financial statements under the aforesaid basis.



歡樂徐福記 吃得真開心
Making Life's Sweet Delights

Hsu Fu Chi International Limited
徐福記國際集團

Zhouwu Industrial District
Dongcheng, Dongguan
Guangdong, 523118, PRC
Tel: 86 769 2226 8955
Fax: 86 769 2226 4864
www.hsufuchifoods.com