

## RISK FACTORS

*Potential investors should consider carefully all the information set out in this prospectus and, in particular, should evaluate the following risks associated with an investment in our Company before making any investment decision regarding our Company. You should pay particular attention to the fact that our Company is incorporated in the Cayman Islands and all of our operations are conducted in the PRC and are governed by a legal and regulatory environment which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties described below could have a material adverse effect on our business, results of operations, financial condition or on the trading price of the Shares, and could cause you to lose all or part of your investment.*

### RISKS RELATING TO OUR GROUP

#### **Fluctuations in prices and the unavailability of raw materials could negatively impact our operations**

Our results of operations and financial condition are dependent upon the cost and supply of our main raw materials of corn embryo and crude corn oil as well as the selling prices for our products. These factors are determined by constantly changing market forces of supply and demand over which we have limited or no control. The fluctuation in our average purchase prices of corn embryo and crude corn oil mainly depends on the fluctuation in the market prices of edible corn oil products which are produced from corn embryo or crude corn oil. In addition, our average purchase prices of corn embryo and crude corn oil is also affected by other less significant factors which include: (i) the fluctuation in the price of corn; (ii) government policies regarding the usage of corn which have an impact on the supply of corn embryo; and (iii) the general economy in the PRC and in the world. Please refer to the paragraph headed “Fluctuation of the average purchase prices of our raw materials” under the “Financial Information” section of this prospectus for further analysis of the fluctuation. As a result, fluctuations in prices of our raw materials can significantly affect our earnings. The availability and production of our raw materials can also be affected by, among other things, weather patterns throughout the world, as well as the agricultural policies of the PRC and foreign governments. Unavailability of raw materials could negatively impact our operations.

#### **Price fluctuation of our products may adversely affect our turnover**

During the Track Record Period, the increase of our turnover was partly a result of the increase in the price of our products. For instance, the average unit selling price of our corn oil products during the Track Record Period had an upward trend in general from 2006 to the first half of 2008 and a downward trend from the second half of 2008 to the first quarter of 2009. The average selling prices of our non-branded corn oil products during the Track Record Period were RMB5,382/tonne, RMB7,661/tonne, RMB9,926/tonne and RMB6,528/tonne respectively, representing a percentage increase/(decrease) of (4.7%), 42.3%, 29.6% and (34.2%) respectively. Since our commencement of branded corn oil sales during 2006, the average selling prices of our branded corn oil products during the Track Record Period were RMB8,616/tonne, RMB10,322/tonne, RMB11,707/tonne and RMB7,460/tonne respectively and the percentage increase/(decrease) for the years ended 31 December 2007 and 2008 and the six months ended 30 June 2009 were 19.8%, 13.4% and

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(36.3%) respectively. The decrease in the average selling prices of our corn oil products for the six months ended 30 June 2009 compared with that for the year ended 31 December 2008 was mainly in line with the drop in the future prices of soybean oil, which is used as a general market practice in determining the selling prices of corn oil products, by approximately 32.5% for the corresponding period according to the quote by the Dalian Commodity Exchange. Please refer to the paragraph headed "Fluctuation of the average selling prices of our corn oil products" under the "Financial Information" section of this prospectus for further analysis of the fluctuation. There is no assurance that our product price will not decrease in the future, and in such event, our turnover, may be adversely affected in the future.

### **Reliance on suppliers may impose adverse effect on our operations**

For each of the three years ended 31 December 2008 and the six months ended 30 June 2009, our five largest suppliers which were mainly suppliers of corn embryo accounted for approximately 19.4%, 32.8%, 37.4% and 20.8% of our total purchases respectively. Purchase from our largest corn embryo supplier for the three years ended 31 December 2008 and the six months ended 30 June 2009 accounted for approximately 8%, 12.4%, 16% and 6.5% of our total purchases respectively. Our operations depend on a sufficient supply of corn embryo, which is acquired by us at market price. We have not entered into any long term supply agreements with any of our corn embryo suppliers. There is no assurance that our existing corn embryo suppliers will continue to supply corn embryo to our Company at a price acceptable to us or will continue to supply corn embryo to us in the future. Any interruption in the supply of corn embryo to us may have a material adverse effect on our operations.

### **Reliance on Shandong Mingda may impose adverse effect on our operations**

Shandong Mingda has been supplying steam and electricity to us in connection with our operations. During the Track Record Period, all the steam and electricity required by us was provided by Shandong Mingda. There can be no assurance that the supply of steam or electricity to us will always be sufficient in future. Although we signed the Steam and Electricity Supply Agreement with a term of three years with Shandong Mingda, the amount of steam or electricity to be supplied to us at any given time in the future may not be sufficient to satisfy our actual production requirement, which consequently may adversely affect our financial performance. In addition, the pipelines transmitting steam to us or other power generators may break down due to natural disasters, accidents, unforeseen engineering, design, environmental or geological problems. These may interrupt the supply of steam or electricity to us, which in turn may have material adverse impact on our operations.

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### **Non-renewal of merchandise contract may affect our business and operations**

Currently, the merchandise contracts entered into between us and our retailers are mainly of a limited term of one year. Based on our records, most of these merchandise contracts are annually renewed. However, such kind of renewal is not guaranteed and new agreements may not be agreed upon in the future. Failure to have such merchandise contracts renewed or for new merchandise contracts to be entered into may result in an adverse effect on our business and operations.

### **Procurement of genetically modified raw materials without our knowledge may affect our reputation and business performance**

The consumption of genetically modified food is controversial and some consumers may decline to accept and consume genetically modified food. There is no assurance that we may not be exposed to the risk of being supplied with genetically modified materials without our knowledge. If it is subsequently discovered and published that our products are derived from genetically modified materials, consumers' confidence in our products may be adversely influenced thereby affecting our reputation and business performance.

### **If our products become contaminated, we may be subject to product liability claims and product recalls**

Our products may be subject to contamination by disease-producing organisms or pathogens. These pathogens are found generally in the environment and therefore, there is a risk that they could be present in our products. These pathogens can also be introduced to our products as a result of improper handling at the further processing, foodservicing or consumer level. This risk may be controlled, but may not be eliminated, by adherence to good manufacturing practices and finished product testing. We have little, if any, control over proper handling procedures once our products are delivered for distribution.

Our products are subject to sampling examinations on product quality by the PRC government authorities. If the products materially failed to meet any relevant quality or safety standards, we may be required by the PRC government authorities to recall the products and we may be held responsible for such failure. Hence, our reputation and operations will be adversely affected.

Manufacturers and sellers of defective products in the PRC may be liable for any loss and injury caused by such products. According to the principal laws and regulations governing this area, such as the PRC Civil Law, where a sub-standard product causes property damage or physical injury to any person, the manufacturer or seller of such sub-standard product may be subject to civil liabilities under the PRC Civil Law for such damage or injury. The PRC Civil Law was supplemented by the Product Quality Law. The Product Quality Law is intended to protect the legitimate rights and interests of end-users and consumers and to strengthen the supervision and control of the quality of products. Under the Product Quality Law, manufacturers are responsible for the quality of the products they produce and the products must meet certain minimum standards. Further, the Consumers' Protection Law gives protection to legal rights and interests of consumers in respect of the safety of people and property in the purchase or use of goods or services. The Consumers' Protection Law shall be observed by operators in the PRC in respect of goods produced or sold by them and in the provision of services.

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We may also be liable for loss and injury due to defective products under the relevant laws of all possible jurisdictions other than the PRC which may have an adverse effect on our financial condition and results of operations. There is no assurance that additional regulatory requirements will not be imposed by the PRC or other government authorities outside the PRC. We may also be required to incur extra expenditures to comply with the additional regulatory requirements from time to time.

There was no product liability claim, product recall or other incident due to contamination of our products during the Track Record Period. Our Directors are not aware of any contamination of our products.

**If we fail to effectively promote our brands, particularly, our brand 長壽花 (Longevity Flower), our business, financial condition and results of operations may be materially and adversely affected**

We believe that brand image plays an important role in influencing consumers' decisions in purchasing our products. Our brands, particularly our brand 長壽花 (Longevity Flower), are critical to the success of our business. For the each of the three years ended 31 December 2008 and the six months ended 30 June 2009, we derived approximately 4.9%, 9.1%, 11.8% and 12.0% respectively, of our total revenue from the sales of products under our brand 長壽花 (Longevity Flower). Our business and market position largely depend on our ability to successfully promote our brands, particularly our brand 長壽花 (Longevity Flower), and our ability to continue to develop and sell new products under our brands. We market our brands and products through various channels and methods including (i) television commercials; (ii) advertising in newspapers and magazines; (iii) selecting suitable celebrity to be our brand ambassador; and (iv) organising in-store promotional activities and roadshows.

We cannot give assurance that our marketing and promotional activities will remain effective. If we fail to successfully market or promote our brands, our brand recognition may be adversely affected and the demand for our products may decline or fail to increase as we expected. If our brands are tarnished in any manner, we may lose our competitive advantage and our business, financial condition and results of operations may be materially and adversely affected.

**Decrease in our overseas sales, together with insufficient domestic sales, could adversely affect our financial condition and operating results**

The PRC is the major market for our edible oil and refined oil products. Our turnover generated from sales in the PRC accounted for approximately 51.0%, 83.3%, 69.8% and 98.8% of our total turnover for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 respectively. We also sell our edible oil and refined oil products overseas. Our turnover generated from overseas sales accounted for approximately 49.0%, 16.7%, 30.2% and 1.2% of our total turnover for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 respectively. The significant drop in export sales for the six months ended 30 June 2009 against the corresponding period in 2008 was mainly due to the PRC government cancelled the export sales value-added tax refund policy in June 2008, the details of which are set out in the paragraph headed "Management discussion and analysis" in the "Business" section in this prospectus. In the event that there are insufficient domestic sales, the continuous decrease in our overseas sales could adversely affect our financial condition and operating results.

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### **Changes in consumers' preference could adversely impact our business**

The corn oil industry in general is subject to changing consumer trends, demands and preferences. Trends within the industry may change rapidly and failure to identify and react to changes in these trends could lead to, among other things, reduced demand and price reductions for our products, and could have an adverse effect on our financial results. There can be no assurance that we will be able to continue to anticipate, gauge, identify and react to changing consumers' demands in the future.

### **We may not be able to develop new products or expand into new markets**

We will continue to improve our products and to develop and market new products and to target new customer groups. The launch and development of new products involve considerable time and commitment which may exert a substantial strain on our ability to manage our existing business and operations. We cannot ensure the success of any new brand or products or any income will be generated from such new brand or products. If we are not able to develop and introduce new products successfully, or if new products fail to generate sufficient revenues to offset research and development costs, our business, financial condition and operating results could be adversely affected. Failure of such could lead to wasted resources and damage to our reputation.

An element of our strategy for growth also envisages us selling new or existing products into new markets of other areas of the PRC. There can be no guarantee that we will be successful to execute this strategy for growth and if we should fail to execute our growth strategy, it may have a material adverse effect on future revenue and profitability.

### **We may face increasing competition which could reduce our market share and adversely affect our financial condition and results of operations**

We provide edible corn oil to other enterprises which sell such edible corn oil in their own packaging and under their own brands. Such customers of us are our competitors. Hence, we compete with such competitors on the basis of a number of factors including pricing, availability of products and brand identification. In addition, we also compete with other manufacturers in terms of product quality and safety and the ability to recruit experienced and talented employees. If we are not able to maintain our competitiveness in respect of the foregoing, our business operations, market share and financial condition may be adversely affected.

There are no assurances that the competitiveness of our competitors will not improve or that we will be successful in expanding our market share against our competitors. Our competitors may be able to respond more quickly to new or emerging technologies and changes in client requirements and/or demands. Some of the markets into which we are entering may be conservative and adopt new products more slowly than anticipated. Existing and/or increased competition could adversely affect our market share and materially affect our business, financial condition and operating results. If competitive pressure should intensify, it may force us to reduce the price of our products, which could adversely affect our business, financial condition and operating results.

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**We do not own the trademarks 長壽花 (Longevity Flower) and 金銀花 (Gold & Silver Flower) and the exclusive licence arrangement with Sanxing Grease for these trademarks may be revoked or invalidated or may not be renewed and the value of the licence may decline**

We do not own the trademarks 長壽花 (Longevity Flower) and 金銀花 (Gold & Silver Flower). Instead, we have entered into the Trademark Licence Agreements with Sanxing Grease, whereby we are granted an exclusive, sole and royalty-free licence to use these trademarks. Pursuant to the Trademark Licence Agreements, the trademarks will be licensed to us for a term of 10 years commencing from the date of signing of the agreements and subject to automatic renewal for another 10 years. Corn Industry has an option to acquire the trademarks from Sanxing Grease for a normal consideration of RMB10 for each of the trademarks. Further details of the licence arrangement are set out in the section headed “Connected Transactions” in this prospectus. If these licences are revoked, invalidated or not renewed or if the commercial value of the trademarks decline in any significant way, we may lose some portion of our goodwill and ability to operate in an optional condition, which could materially and adversely affect our business, results of operation and Share value.

During the Track Record Period, the turnover generated from our sales of 長壽花 (Longevity Flower) products represented approximately 4.9%, 9.1%, 11.8% and 12.0% of our total turnover respectively; and our sales of 金銀花 (Gold & Silver Flower) products represented approximately 0.9%, 1.7%, 2.5% and 2.6% of our total turnover respectively for the corresponding period.

**Our inability to adequately protect our proprietary technology could have a material adverse effect on our business**

We rely substantially on proprietary technology, information, trade secrets, knowhow, laboratory research data and market research data to conduct our business and to attract and retain customers. The success of our business depends on our ability to protect our know-how and our intellectual property portfolio, and to obtain patents without infringing the proprietary rights of others. If we do not effectively protect our know-how and intellectual property, our business and operating results could be harmed materially.

**Our manufacturing operations may be disrupted for maintenance services or reasons beyond our control, which could adversely affect our business, financial condition and results of operations**

Our manufacturing operations could be disrupted for maintenance services or reasons beyond our control. The refinement production lines are subject to maintenance period of an aggregate of approximately 15 days per year, during which the refinement production process stops. Other production lines are subject to on-going maintenance check. Moreover, other causes of disruption include extreme weather conditions, fire, natural catastrophes, raw material supply disruptions, equipment and system failures, mechanical malfunctions, workforce shortages, workforce actions, human errors or environmental issues. Any significant disruption to our manufacturing operations could

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adversely affect our ability to manufacture and sell products or deliver services, either of which could have a material adverse effect on our business, financial condition and results of operations.

### **We rely on our current production facilities, and we may not be able to obtain adequate production capacity to meet our existing obligations and growing market demand for our products**

We have been using our production facilities in Shandong Province at a moderately high utilisation rate and we expect to continue to do so in the near future. During each of the three years ended 31 December 2008 and the six months ended 30 June 2009, the utilisation rate of our production facilities was approximately 91.5%, 89.0%, 79.1% and 74.7%, respectively. Further details of our current production facilities are set forth in the paragraph headed “Production facilities and capacities” under the section headed “Business” in this prospectus. If there is any damage to our current production facilities, we may not be able to remedy such situations in a timely and proper manner, and our production could be materially and adversely affected. We cannot give assurance that our production capacity will be able to meet our obligations and the growing market demand for our products in the future. Furthermore, we may not be able to expand our production capacity in response to the changing market conditions. If we fail to meet demand from our distributors, our retailers or consumers, we may lose our market share.

### **Lack of business insurance coverage may incur substantial costs for our Group**

Although we have taken out insurances against our major assets (production plants and equipments, inventory), we can give no assurance that the present insurance coverage is sufficient to meet any claims to which we may be subject and that we will in the future be able to obtain or maintain insurance on acceptable terms or at appropriate levels or that any insurance maintained will provide adequate protection against potential liabilities. In addition, defending us against such claims may strain management resources, affect our reputation and require us to expend significant sums on legal costs.

The insurance industry in the PRC is still at an early stage of development. Insurance companies in the PRC offer limited business insurance products, and do not, to our Directors’ best knowledge, offer business liability insurance. As a result, we do not have any business liability insurance coverage for our business operations. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of our resources.

### **Reliance on key management personnel may impose risks on our Group**

Our performance and success is, to a significant extent, attributable to the vision and leadership of Mr. Wang MX and the contribution of our other executive Directors and key senior management executives. In the event that any of these persons or any other member of the senior management team was to leave us, and we were not able to engage a suitable replacement on a timely basis, our business, operations and financial condition may be materially adversely affected.

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### **Fluctuation of our gross profit margin may adversely affect our financial condition**

For the three years ended 31 December 2008 and the six months ended 30 June 2009, our gross profit margin were approximately 12.8%, 10.0%, 10.7% and 12.6% respectively. There is no assurance that our gross profit margin will remain stable in the future and our financial condition may be adversely affected by fluctuating gross profit margin.

### **Insufficient cash flow may adversely affect our competitiveness and results of operation**

Our business is capital intensive and we depend on cash provided by our operations as well as access to external financing to operate and expand our business. We require significant amounts of capital to operate our business and fund capital expenditures. Our future funding requirements will depend, to a large extent, on our working capital requirements and the nature of our capital expenditures. We are required to make substantial capital expenditures to maintain and continuously upgrade and expand our production facilities, as well as distribution and marketing network to keep pace with competitive developments, technological advances and changing requirements in our industry. We intend to fund a portion of our future capital expenditures, working capital and other funding requirements from our cash flows provided by operating activities and from external sources of financing. If we are unable to generate sufficient cash flows or raise sufficient external financing on attractive terms to fund these activities, we may not be able to achieve our desired operating efficiencies and expansion plans, which may adversely impact our competitiveness and, therefore, our results of operations. Further, we started to accept bank's notes (銀行承兌匯票) that will be settled by issuing banks as one of our settlement methods in 2009. These note receivables usually have a maturity ranging from three to six months. Such arrangement has lengthened the credit period granted to our customers and may affect our working capital management and cash flows. These bank's notes, if being redeemed at the banks before their maturity, would be at discount to their principal values and such discount would be recognised as finance costs of the Group.

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### RISKS RELATING TO THE INDUSTRY

#### **Improper activities of other manufacturers could affect our business performance or damage our reputation**

In the event that other manufacturers mislead the public and relate any improper activities to our brands 長壽花 (“Longevity Flower”) or 金銀花 (“Gold & Silver Flower”), our reputation may be significantly damaged. Hence, we may have to allocate more resources in the future to advertise, market and promote our products so as to build up consumers’ awareness in relation to our brands. Any significant damage to our reputation or any significant failure to promote and protect our brands and reputation could make it more difficult for us to successfully attract customers for our existing products and to launch new products, which may have a material adverse effect on our business. Our Directors are not aware of any such improper activities of other manufacturers which may have material adverse effect on our business during the Track Record Period.

#### **The operations of our business requires certain specific licences and permits**

Our business is subject to various rules and regulations in the PRC. In order to operate the business of the manufacture of corn oil, we have to possess the relevant licences. If any such licence was revoked or suspended, or if we fail to renew such licences upon expiry or are unable to obtain new licences required by the PRC laws, our business and operations would be materially and adversely affected. In addition, in the event that we are unable to secure the necessary licences for the expansion of business, our development potential might be adversely affected.

#### **We are exposed to the risk of changes in government legislation or policy**

Our products are subject to industry driven standards and governmental regulations. Changes to such standards and regulations in the future could give rise to increased costs being incurred by us associated with required remedial measures or production stoppage, any of which could have a material adverse effect on our business and financial performance.

### RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

#### **Political and economic policies of the PRC government could affect our business**

Our results, financial condition and prospects are to a significant degree subject to the economic, political and legal developments of the PRC, as all of our assets are located in the PRC and substantially all of our revenue is derived from operations that take place in the PRC. The economic, political and social conditions, as well as government policies, including taxation policies, of the PRC, could affect our business. The PRC economy differs from the economies of other countries in many respects. The PRC economy has historically been a planned economy and has been in a transitional stage to a more market economy. Although the PRC government has implemented measures emphasising the use

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of market forces for economic reform in recent years, there can be no assurance that economic, political or legal systems of the PRC will not develop in a way that is detrimental to our business, results of operations and prospects.

### **The current global market fluctuations and economic downturn could materially and adversely affect our business, financial condition and results of operations**

The global capital and credit markets have been experiencing extreme volatility and disruption in the recent periods. Concerns over inflation or deflation, energy costs, geopolitical issues, the availability and cost of credit, the US mortgage market and a declining residential real estate market in the US and elsewhere have contributed to unprecedented levels of market volatility. These factors, combined with volatile oil prices, declining business activities and consumer confidence and increased unemployment, have precipitated an economic slowdown and a possible prolonged global recession. These events may lead to a slowdown in the PRC economy. As a result, consumer demand for our products may significantly decrease, thereby materially and adversely affecting our business, financial condition and results of operations. In addition, the credit tightening environment may aggravate the interest expenses on our bank borrowings. If the economic downturn continues, the business operation and financial position of our Group may be adversely affected.

### **The government control of currency conversion could affect our business operations**

Most of our revenue is received in RMB. At present, RMB is not freely convertible to other currencies. Under the current foreign exchange regulations, RMB is convertible without approvals from SAFE only with regard to current account transactions, including trade and service related foreign exchange transactions and payment of dividends to foreign investors, while the foreign exchange transactions in respect of capital account items including the foreign currency capital in any foreign investment enterprise in the PRC, the repayment of foreign currency loans and the payment pursuant to foreign currency guarantees, continue to be subject to significant foreign exchange controls and require the prior approval of the SAFE. There can be no assurance that the PRC government will not impose more stringent restrictions on the convertibility of RMB, especially relating to foreign exchange transactions.

### **Potential recurrence of severe acute respiratory syndrome (SARS), pandemic influenza, avian influenza (including H5N1) or influenza A (H1N1) (also sometimes referred to as swine influenza) or other widespread public health problem may adversely affect the economy and our business**

The outbreak of SARS in early 2003 substantially affected businesses in Asia. The World Health Organization declared that the SARS outbreak had been contained on 5 July 2003, but a number of isolated cases of SARS were still reported in the PRC in April 2004. Currently, our Directors are unable to predict the potential impact of another possible SARS outbreak or an outbreak of other serious contagious diseases. Should another outbreak of SARS or another serious contagious disease take place, our financial condition and results of our operations may be adversely affected as a result of a general adverse impact on the economy or otherwise.

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In recent years, certain Asian countries, including the PRC, have also encountered incidents concerning the H5N1 strain of avian influenza. This disease, which is spread through poultry populations, is capable in certain circumstances of being transmitted to humans and could be fatal. Furthermore, recently, the outbreak of disease in people caused by a new influenza virus of influenza A (H1N1) (also sometimes referred to as swine influenza) originally started in the US and spread internationally, and most people do not have immunity to this virus. If any of our employees are identified as a possible source of spreading pandemic, avian or swine influenza or any other similar epidemic, we may be required to quarantine employees suspected of being infected, as well as others that have come into contact with those employees. We may also be required to disinfect our affected operating facilities, which could adversely affect our operations.

In addition, any outbreak of any widespread public health problem may affect economic activities locally in the PRC and internationally, which in turn may affect the financial condition and results of our operations.

### **Uncertainties regarding interpretation and enforcement of the PRC laws and regulations may impose adverse impact on our business, operations and profitability**

Although many laws and regulations have been promulgated and amended in the PRC since 1978, the PRC legal system is still not sufficiently comprehensive when compared to the legal systems of certain developed countries. The interpretation of the PRC laws and regulations may be influenced by momentary policy changes reflecting domestic political and social changes. In addition, it may also be difficult to enforce judgments and arbitration awards in the PRC.

Many laws and regulations in the PRC are promulgated in broad principles and the Central People's Government has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect foreign investors. There can be no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect upon our business, operations or profitability.

### **The implementation of the new labour contract law and increase in labour costs in the PRC may adversely affect our business and financial conditions**

A new labour contract law became effective on 1 January 2008 in the PRC. It imposes more stringent requirements on employers in relation to entry into fixed term employment contracts and dismissal of employees. In addition, under the newly promulgated "Regulations on Paid Annual Leave for Employees" (職工帶薪年休假條例), which became effective on 1 January 2008, employees who have worked continuously for more than one year are entitled to a paid vacation ranging from 5 to 15 days, depending on the length of the employees' work time. Employees who consent to waive such vacation at the request of employers shall be compensated an amount equal to three times their normal daily salaries for each vacation day being waived. As a result of the new law and regulations, our labour costs may increase. It cannot be assured that any disputes, work stoppages or strikes will not arise in the future. Increases in our labour costs and future disputes with our employees could adversely affect our business, financial condition or results of operations.

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### **Restriction of payment of dividends under the PRC laws and the tax exemptions on dividends received by the Company and the Shareholders may be affected by the newly enacted Enterprise Income Tax Law**

Under the PRC laws, dividends may be paid only out of distributable profits. Distributable profits with regard to the subsidiary of the Company incorporated in the PRC means its after tax profits as determined under the PRC Accounting Standards and Regulations, less any recovery of accumulated losses and allocations to statutory funds that it is required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The calculation of distributable profits under the PRC Accounting Standards and Regulations differs in many aspects from the calculation under International Financial Reporting Standards (“IFRSs”). As a result, the subsidiary of the Company incorporated in the PRC may not be able to pay any dividend in a given year to the Company if it does not have distributable profits as determined under the PRC Accounting Standards and Regulations, even if it has profits for that year as determined under IFRSs. Accordingly, since the Company derives all of its profits from its subsidiary, it may not have sufficient distributable profits to pay dividends to the Shareholders, even if there is such an amount as shown in its accounts prepared under IFRSs.

In addition, the newly enacted Enterprise Income Tax Law and its implementation rules stipulate that if an entity is deemed to be a non-PRC resident enterprise without an establishment or place of business in the PRC, withholding tax at the rate of 10% will be applicable to any dividends paid to it by its PRC subsidiary, unless it is entitled to reduction or elimination of such tax, including by tax treaties.

### **Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects**

The Rules on the Acquisition of Domestic Enterprises by Foreign Investors (2006 Revision) (關於外國投資者併購境內企業的規定) (“M&A Rules”), which were promulgated in August 2006 and were effective from 8 September 2006, provide the rules with which foreign investors must comply if they are seeking to acquire shares in a non-foreign funded enterprise, whether through a purchase agreement with existing shareholders or through a direct subscription from a company, that would result in that company becoming a foreign-funded enterprise. The M&A Rules further require that the business scope of the resultant foreign-funded enterprise conform to the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄). The M&A Rules also provide the takeover procedures for the acquisition of equity interests in domestic enterprises.

There are uncertainties as to how the M&A Rules will be interpreted or implemented. If we decide to acquire a PRC company in the future, there is no assurance that we or the owners of such PRC company can successfully complete all necessary approval requirements under the M&A Rules. This may restrict our ability to implement our expansion and acquisition strategy and could materially and adversely affect our future growth.

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### RISKS RELATING TO THE SHARE OFFER

#### **Shareholders' interests in the share capital of the Company may be diluted in the future**

We may in the future expand our capabilities and business through acquisition, joint venture and strategic partnership with parties who can add value to our business. We may require additional equity funding after the Share Offer and the equity interest of the Shareholders will be diluted should the Company issue new Shares to finance future acquisitions, joint ventures and strategic partnerships and alliances.

Any exercise of the options to be granted under the Share Option Scheme in the future and issuance of Shares thereunder would also result in the reduction in the percentage ownership of the Shareholders. There may also be a dilution in the earnings per Share and net asset value per Share as a result of the increase in the number of Shares outstanding after the issue of such additional Shares.

Under the IFRS 2, the costs of share options to be granted to employees under the Share Option Scheme will be charged to our income statement over the vesting period by reference to the fair value at the date at which the share options are granted. As a result, our profitability may be adversely affected.

#### **Lack of liquidity of the Shares and volatility of the market price may be resulted**

Prior to the Share Offer, there has been no public market for the Shares. There is no guarantee that a liquid public market for the Shares will develop or be sustained upon completion of the Share Offer. In addition, the Offer Price has been determined by negotiations between the Lead Manager (acting on behalf of the Underwriters) and the Company, and may not be indicative of the market price of the Shares that will prevail in the trading market and such market prices may be volatile.

If an active public market for the Shares does not develop after the Share Offer, the market price and liquidity of the Shares may be adversely affected. Investors may not be able to sell their Shares at or above the initial public offering price. The stock market of Hong Kong generally has experienced increasing price and volume fluctuations, some of which have been unrelated or have not corresponded to the operating performances of such companies in recent years. Volatility in the price of the Shares may be caused by factors outside our control and may be unrelated or disproportionate to our operating results.

#### **Fluctuation of RMB may affect value of our dividends (if any) and our financial condition**

The value of RMB may fluctuate which is subject to the government policy of the PRC. From 1994 to 2005, RMB was pegged to the US Dollar. The conversion of RMB into foreign currencies in the PRC, including Hong Kong and US Dollars, was based on exchange rates published by the People's Bank of China. The official exchange rate for the conversion of the RMB to US Dollar was in general stable during that period. However, since 2005, RMB has been pegged to a basket of currencies instead of US Dollar alone.

## RISK FACTORS

Since our financial statements are denominated in RMB, the termination of the linked exchange rate between RMB and US Dollar has increased the uncertainty of our income and profits. Any unfavourable change in the PRC government's currency policies and conditions of the currency market may have material adverse effect on the value of our dividends, if any, payable in foreign currencies, and also our financial condition.

### **Investors may experience difficulties in effecting service of legal process and enforcing judgments against the Company and its management**

The Company is a company incorporated in the Cayman Islands under the Companies Law with limited liability and the Companies Law differs in some respects from those of Hong Kong or other jurisdictions where investors may be located. As a result, the remedies available to the minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions.

The Company's corporate affairs are governed by its memorandum and articles of association, the Companies Law and the common law of the Cayman Islands. The rights of the Shareholders to take legal action against our Directors and the Company, actions by minority Shareholders and the fiduciary responsibilities of our Directors to the Company under the Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of the Shareholders and the fiduciary responsibilities of our Directors under the Cayman Islands law may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong or other jurisdictions where investors may be located. In particular, the Cayman Islands has a less developed body of securities laws.

In addition, although the Company will be subject to the Listing Rules and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases upon the listing of the Shares on the Stock Exchange, the Shareholders will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules.

Furthermore, the Hong Kong Codes on Takeovers and Mergers and Share Repurchases do not have the force of law and only provide standards of commercial conduct acceptable for takeover and merger transactions and share repurchases in Hong Kong.

As a result of any or all of the above, the Shareholders may have more difficulty in protecting their interests in the face of actions taken by the Company's management, directors or major shareholders than they would as shareholders of a Hong Kong company or companies incorporated in other jurisdictions.

For further information on the constitution of the Company and the Cayman Islands Companies Law, see "Summary of the constitutions of the Company and Cayman Islands Company Law" set out in Appendix V to this prospectus.

## RISK FACTORS

**We cannot guarantee the accuracy of facts and other statistics with respect to the PRC, the PRC economy and the PRC edible corn oil industry contained in this prospectus**

We have derived certain facts and other statistics in this prospectus relating to the PRC, the PRC economy and the PRC edible corn oil industry from various government publications or various organisations that we believe to be reliable. However, we cannot guarantee the quality or reliability of such source materials. While our Directors have taken reasonable care in the reproduction of the information, they have not been prepared or independently verified by us, the Underwriters or any of our or their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or without the PRC. The facts and other statistics include the facts and statistics included in the sections headed “Risk Factors”, “Industry Overview” and “Business”. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and you should not place undue reliance on them. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts or statistics.

**Forward-looking statements contained in this prospectus are subject to risks and uncertainties**

This prospectus contains certain statements that are “forward-looking” and indicated by the use of forward-looking terminology such as “anticipate”, “believe”, “estimate”, “expect”, “may”, “ought to”, “should” or “will” or similar terms. Prospective investors are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that, although our Directors believe the assumptions related to those forward-looking statements are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The risks and uncertainties in this regard consist of those identified in the risk factors discussed above. In light of these and other risks and uncertainties, the enclosure of forward-looking statements in this prospectus should not be regarded as representations by us that the plans and objectives will be achieved, and investors should not place undue reliance on such statements.