

Origin Agritech LTD
Form 20-F
July 14, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE
SECURITIES EXCHANGE ACT OF 1934**

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended **December 31, 2005**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

OR

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report.....

For the transition period from _____ to _____.

Commission file number: 000-51576

Origin Agritech Limited

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

British Virgin Islands

(Jurisdiction of incorporation or organization)

No. 21 Sheng Ming Yuan Road, Changping District, Beijing 102206, China
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
None	None

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Ordinary Shares

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 18,203,193 ordinary shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transaction report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer Accelerated filer Non-accelerated filer

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow:

o Item 17 p Item 18



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ORIGIN AGRITECH LIMITED

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INTRODUCTION

Except where the context otherwise requires and for purposes of this annual report only:

- “we,” “us,” “our company,” “our” the “Company” and Origin refer to Origin Agritech Limited and, in the context of describing our operations, also include our PRC operating companies: Beijing Origin Seed Limited, Changchun Origin Seed Technology Development Limited, Henan Origin Cotton Technology Development Limited and Beijing Origin State Harvest Biotechnology Limited;
- “shares” and “ordinary shares” refer to our ordinary shares, “preferred shares” refers to our preferred shares;
- “China” or “PRC” refers to the People’s Republic of China, excluding Taiwan, Hong Kong and Macau;
- “Hong Kong” refers to the Hong Kong Special Administrative Region of the People’s Republic of China; and
- all references to “Renminbi,” “RMB” or “yuan” are to the legal currency of China, all references to “U.S. dollars,” “dollars,” “\$” or “US\$” are to the legal currency of the United States. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about us and our industry. All statements other than statements of historical fact in this annual report are forward-looking statements. These forward-looking statements can be identified by words or phrases such as “may,” “will,” “expect,” “anticipate,” “estimate,” “plan,” “believe,” “is /are likely to” or other similar expressions. The forward-looking statements included in this annual report relate to, among others:

- our goals and strategies, including how we effect our goals and strategies;
- our expectations for our future business development, business prospects, results of operations and financial condition;
 - expected changes in our margins and certain costs or expenditures;
 - our future pricing strategies or policies;
 - our plans to expand our business operations and product offerings;
- expected changes in the respective shares of our revenues from particular sources;
 - competition in the crop seed industry in China;
 - the future development of the crop seed industry in China;
- our plans for staffing, research and development and regional focus;

- PRC governmental policies relating to the crop seed industry; and
- other “forward-looking” information.

We believe it is important to communicate our expectations to our stockholders. However, there may be events in the future that we are not able to predict accurately or over which we have no control. The risk factors and cautionary language discussed in this annual report provide examples of risks, uncertainties and events that may cause actual results to differ materially from the expectations in these forward-looking statements, including among other things:

- changing interpretations of generally accepted accounting principles;
- outcomes of government reviews, inquiries, investigations and related litigation;
 - continued compliance with government regulations;
- legislation or regulatory environments, requirements or changes adversely affecting the businesses in which we and our PRC operating companies are engaged;
 - fluctuations in customer demand;
 - management of rapid growth;
 - intensity of competition from other providers of crop seeds;
 - timing of approval and market acceptance of new products;
 - general economic conditions; and
 - geopolitical events and regulatory changes.

These forward-looking statements involve various risks, assumptions and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, we cannot assure you that our expectations will turn out to be correct. Our actual results could be materially different from and worse than our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in Item 3.D of this annual report, “Key information — Risk Factors” and elsewhere in this annual report.

This annual report also contains information relating to the crop seed market. This market data includes projections that are based on a number of assumptions. The crop seed market may not grow at the rates we project, or at all. The failure of this market to grow at the projected rates may have a material adverse effect on our business and the market price of our shares. In addition, the relatively new and rapidly changing nature of the genetically modified crop seed industry subjects any projections or estimates relating to the growth prospects or future condition of our markets to significant uncertainties. Furthermore, if any one or more of the assumptions underlying the market data turns out to be incorrect, actual results may differ from the projections based on these assumptions.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. You should not place undue reliance on these forward-looking statements, and you should read these statements in conjunction with the risk factors disclosed in Item 3.D of this annual report.

All forward-looking statements included herein attributable to us or other parties or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable laws and regulations, we undertake no obligations to update these forward-looking statements to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

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ITEM 3. KEY INFORMATION**A. Selected financial data.**

The following selected consolidated financial information has been derived from our consolidated financial statements. You should read the following information in conjunction with those statements and Item 5, "Operating and Financial Review and Prospects." The summary consolidated statements of operations and comprehensive income data of the Company for the years ended December 31, 2003, 2004 and 2005 and the summary consolidated balance sheet data of the Company as of December 31, 2004 and 2005 set forth below are derived from, and are qualified in their entirety by reference to, the audited consolidated financial statements of the Company, including the notes thereto, which are included in this annual report. The summary statement of operations data for the years ended December 31, 2001 and 2002, and the summary balance sheet data as of December 31, 2001, 2002 and 2003 set forth below are derived from audited consolidated financial statements of the Company not included herein.

Our consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

	For the year ended December 31,					
	2001	2002	2003	2004	2005	
(in thousand, except share data)	RMB	RMB	RMB	RMB	RMB	US\$(1)
Consolidated statement of operations and comprehensive income (loss) data:						
Net revenues	75,056	98,717	191,645	301,520	207,291	25,687
Cost of revenues	(50,341)	(46,006)	(118,977)	(178,313)	(129,162)	(16,005)
Gross (loss) profit	24,715	52,711	72,668	123,207	78,129	9,682
Selling and marketing	(8,900)	(6,480)	(13,310)	(20,390)	(27,037)	(3,350)
General and administrative	(8,742)	(9,642)	(18,948)	(24,149)	(28,983)	(3,591)
Research and development	(2,497)	(5,372)	(5,288)	(6,774)	(6,977)	(865)
Total operating expenses	(20,139)	(21,494)	(37,546)	(51,313)	(62,997)	(7,806)
other operating income	-	-	-	-	2,309	286
Income (loss) from operations	4,576	31,217	35,122	71,894	17,441	2,162
Interest income	134	440	845	371	886	110
Interest expenses	(172)	(417)	(483)	(831)	(1,829)	(227)
Other income (expense)	6,584	(606)	1,137	149	300	37
Equity in earnings of associated company	-	-	-	1,925	879	109
Income (loss) before income taxes	11,122	30,634	36,621	73,508	17,677	2,191
Income tax	(3,232)	(1,498)	(7,808)	(7,698)	(1,405)	(174)
Income (loss) before minority interests	7,890	29,136	28,813	65,810	16,272	2,017
Minority interests	225	(2,575)	138	(351)	137	17
Net income (loss)	8,115	26,561	28,951	65,459	16,409	2,034
	-	-	-	-	-	-

Dividends on preference shares						
Income (loss) attributable to ordinary shareholders	8,115	26,561	28,951	65,459	16,409	2,034
Net income per share:						
Basic	-	-	2.90	6.55	1.52	0.19
Diluted	-	-	2.90	6.55	1.46	0.18
Shares used in computation:						
Basic	-	-	10,000,000	10,000,000	10,786,719	10,786,719
Diluted	-	-	10,000,000	10,000,000	11,220,157	11,220,157

(in thousand)	For the year ended December 31,					
	2001 RMB	2002 RMB	2003 RMB	2004 RMB	2005 RMB	US\$
Consolidated balance sheet data:						
Cash and cash equivalents	37,308	78,698	49,221	68,848	237,828	29,471
Current working capital(2)	5,333	12,782	10,186	51,897	149,610	18,538
Total assets	97,434	257,388	307,257	416,384	798,769	98,981
Deferred revenue	4,784	74,764	65,296	37,921	181,583	22,501
Total current liabilities	77,212	205,158	227,768	273,002	499,616	61,911
Total liabilities	77,212	208,031	230,640	275,874	504,368	62,500
Minority interests	510	3,271	3,184	3,534	3,234	401
Total shareholders' equity	19,712	46,086	73,433	136,976	291,167	36,080

- (1) Translations of RMB amounts into U.S. dollars were made at a rate of RMB8.0702 to US\$1.00, the noon buying rate in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on December 30, 2005.
- (2) Current working capital is the difference between total current assets and total current liabilities.

Exchange Rate Information

We have published our financial statements in U.S. dollars. Our business is primarily conducted in China and revenues are denominated in Renminbi. Periodic reports will be made to shareholders and will be expressed in U.S. dollars using the then-current exchange rates. The conversion of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, for years ended December 31, 2003, 2004 and 2005, all translations from Renminbi to U.S. dollars in this annual report were made at RMB8.2769, RMB8.2765 and RMB8.0702 per \$1.00, respectively, which were the prevailing year end rates for those three years. The prevailing rate on June 30, 2006 was \$1.00 to RMB7.9943. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

The People's Bank of China sets and publishes daily a base exchange rate. Until July 21, 2005, the People's Bank of China set this rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day. Beginning on July 21, 2005, the People's Bank of China has set this rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The People's Bank of China also takes into account other factors such as the general conditions existing in the international foreign exchange markets. Although governmental policies were introduced in the PRC in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or security, requires the approval of the State Administration for Foreign Exchange and other relevant authorities.

The following table sets forth various information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve Bank of New York.

	Average(1)	High	Low	Period-end
		<i>(RMB per \$.1.00)</i>		
2001	8.2770	8.2786	8.2676	8.2766
2002	8.2770	8.2800	8.2669	8.2800
2003	8.2770	8.2800	8.2772	8.2769
2004	8.2770	8.2773	8.2765	8.2765
2005	8.1826	8.2765	8.0702	8.0702
2006				
January	8.0654	8.0702	8.0596	8.0608
February	8.0512	8.0616	8.0415	8.0415
March	8.0350	8.0505	8.0167	8.0167
April	8.0143	8.0248	8.0040	8.0165
May	8.0131	8.0300	8.0005	8.0215
June	8.0042	8.0225	7.9943	7.9943

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and indebtedness.

Not Applicable.

C. Reasons for the offer and use of proceeds.

Not Applicable.

D. Risk factors.

Risks relating to our business

If we do not manage our growth successfully, our growth and chances for continued profitability may slow or stop.

We have expanded our operations rapidly during the last several years, and we plan to continue to expand with new seed products and distribution outlets. This expansion has created significant demands on our administrative, operational and financial personnel and other resources, particularly our need for working capital. Additional expansion in existing or new markets and new lines of business could strain these resources and increase our need for capital, which may result in cash flow shortages. Our personnel, systems, procedures, controls and existing space may not be adequate to support further expansion.

We have a short operating history and are subject to the risks of any new enterprise, any one of which could limit growth and product and market development.

Our short operating history makes it difficult to predict how our businesses will develop. Accordingly, we face all of the risks and uncertainties encountered by early-stage companies, such as:

- uncertain growth in the market for, and uncertain market acceptance of, our products and services;
- the evolving nature of the crop seed business in the PRC, where significant consolidation is likely to occur, leading to the formation of companies better able to compete with us than is currently the case; and
- the risks of competition, technological change or evolving customer preferences could harm sales of our products or services.

If we are not able to meet the challenges of building our businesses and managing our growth, the likely result will be slowed growth, lower margins, additional operational costs and lower income.

The profitability of our businesses will decrease if we do not continue to find and market products considered valuable by Chinese farmers.

The profitability of our seed business depends on recurring and sustained reorders. Reorder rates are inherently uncertain due to several factors, many of which are outside our control. These include changing customer preferences, competitive price pressures, failure to develop acceptable new products, development of higher quality products by competitors and general economic conditions.

We are currently dependent on licensed seed products for the majority of our revenues, and if we lose the right to produce and sell licensed seeds, we will lose substantial revenues and suffer substantial losses.

The revenue related to licensed hybrid seeds for, 2003, 2004 and 2005 was \$23,155,319, \$35,933,245, \$24,314,206 respectively. Licensed hybrid seeds accounted for 100% of the total seed revenue in 2003, 98.97% of the total seed revenue in 2004, and 93.97% of the total seed revenue in 2005. There were no revenues related to internally developed proprietary hybrid seeds in 2002 and 2003. The amount of revenue related to internally developed proprietary hybrid seeds in 2004 was \$375,929, which accounted for 1.03% of the total 2004 seed revenue, while the amount of revenue related to proprietary hybrid seeds in 2005 was \$1,558,883, which accounted for 6.03% of the total 2005 seed revenue. We sell a majority of seeds developed and produced under our license agreements with the Corn Research Institute Li County, Hebei Province (now Shijiazhuang Liyu Technology Development Co., Ltd.) and the Henan Agricultural University, representing respectively 48.19% and 35.3% of sales in 2003, 58.64% and 13.2% of sales in 2004, and 49.79% and 16.42% of sales in 2005. If we are not able to develop and produce the licensed seed products or if the current license agreements are terminated, we will suffer a substantial loss of revenue and will suffer substantial business losses. Our financial condition and results of operations may be materially and adversely affected.

We or our licensors may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and, if determined adversely against us or our licensors, may materially disrupt our business.

We cannot be certain that our licensed or self-developed proprietary seed products do not or will not infringe upon intellectual property rights held by third parties. We or any of our licensors may become subject to legal proceedings and claims from time to time relating to the intellectual property of others. If we or our licensors are found to have violated the intellectual property rights of others, we may be required to pay damages and be enjoined from using such intellectual property, and we may incur new or additional licensing fees if we wish to continue using the infringing products, or be forced to develop or license alternatives. In addition, we may incur substantial expenses in defending against these third party infringement claims, regardless of their merit.

Due to our size and short operating history, we substantially depend on a few key personnel who, if not retained, could cause declines in productivity and profitability and loss of strategic guidance, all of which would diminish the prospects of the company and value to investors.

Due to our size and short operating history, our success depends to a large extent upon the continued service of a few executive officers and key employees, including:

- Dr. Gengchen Han;
- Yasheng Yang; and
- Liang Yuan.

The loss of the services of one or more of these key employees could have an adverse effect on us and our PRC Operating Companies, as each of these individuals played and continues to play a significant role in developing and executing our overall business plan and maintaining customer relationships and proprietary technology systems. While none of these key personnel is irreplaceable, the loss of the services of any of these individuals would be disruptive to our business. We believe that our overall future success depends in large part upon our ability to attract and retain highly skilled managerial and marketing personnel. There can be no assurance that we will be successful in attracting and retaining such personnel on terms acceptable to them. Inadequate personnel will limit our growth, and will be seen as a detriment to our prospects, leading potentially to a loss in value for investors.

If we do not comply with applicable government regulations, we may be prohibited from continuing some or all of our operations, resulting in a reduction of growth and ultimately market share due to loss of competitive position.

Our revenue depends on receiving approval from the PRC government to market new seed hybrids that we are developing and will develop. In addition, there may be circumstances under which the approvals granted are subject to change without substantial advance notice, and it is possible that we could fail to obtain the approvals that we require to expand our business as we intend to do. The failure to obtain or to maintain such approvals would limit the number and quality of products that we would be able to offer. This reduction in product offerings would cause a reduction in the growth previously experienced and over time would result in loss of market share from the competitive pressures of seeds developed by others that would likely be better than our products.

Our single business line of crop seed development and production does not permit us to spread our business risks among different business segments, such that a disruption in our seed production or the industry would hurt the company more immediately and directly.

We operate mainly in the crop seed business. Without business line diversity, we will not be able to spread the risk of our operations. Therefore, our business opportunities, revenues and income could be more immediately and directly affected by disruptions from such things as drought and disease or widespread problems affecting the industry, such as the absence of farmer credit and payment disruptions and customer rejection of modified crop seeds. If there is a disruption as described above, our revenues and income will be reduced, and our business operations may have to be scaled back.

Natural disasters could damage seed production, in which event we will suffer a loss of production and will suffer consequential losses of revenues, market disruption and reputation, and there is no agriculture insurance in the PRC to cover loss of seed crops.

We produce our seeds using a network of approximately 10,000 farmers, which plant the crops and harvest the seeds for use as crop seeds for the next growing season. As a result, the source of supply for our seeds is subject to all of the

risks associated with any agricultural enterprise, including widespread drought, pestilence or other natural disasters. While the use of such a large number of farmers provides some protection against a widespread failure of any particular crop, the majority of seed production farmers are located in just two provinces, making them subject to risks that are somewhat local in nature. We have attempted to manage this risk by obligating ourselves to pay the farmers who produce our seeds only for the quantity of seeds that they produce, thus limiting our expenses somewhat. We have also set up a storage system since 2003 attempting to manage this risk. However, in the event of a widespread failure of the seed crop, we would likely sustain substantial operating losses, due to both the fact that a significant portion of our expenses are fixed overhead and that the loss of a large portion of a seed crop would limit our revenues significantly. Although insurance to protect against such a risk is available in many jurisdictions, such insurance is not available in the PRC.

We rely on our network of approximately 10,000 farmers for production of our seeds, and although our relationship with those farmers has been stable in the past, there are no assurances that those relationships will remain stable in the future, the result of which could limit the amount of seed products available to us for sale to customers and customer loyalty.

We believe we maintain a favorable relationship with the farmers in our seed production network by paying them a higher price for their crop seeds than they would receive by producing other crops for sale in the market. In addition, the large number of farmers on which we rely to produce crop seeds means that no one or even several of them can, acting independently, adversely and materially affect our business. However, events such as a shift in pricing caused by an increase in the value of food crops other than seed crops, increase in land prices or competition could disrupt the chain of supply. Any of these disruptions could limit the supply of seeds that we obtain, adversely affecting supply and thereby lowering revenues from the lack of product to sell. Such disruption could also damage distributor relationships and farmer loyalty to the brand if we cannot supply the quantity of seed expected from them.

The corn seed prices and sales volumes may decrease in any given year with a corresponding reduction in sales, margins and profitability.

During most of our brief existence, the corn seed market has been stable in the PRC, but in the past it was marked by periods of instability. In the future there may be periods of instability during which commodity prices and sales volume might fluctuate greatly. Commodities can be affected by general economic conditions, weather, disease and aspects of demand such as financing, competition and trade restrictions. Although we have followed a branded product strategy to differentiate our products from those of other crop seed producers, the crop seed market continues to behave as a commodity market. As a result, the price that we are able to demand for our seeds is somewhat dependent on the size of the supply of our seeds and the seeds of other producers. Therefore, the potential exists for fluctuation in supply, and consequently in price, in our own markets, even in the absence of significant external events that might cause volatility. As a result, the level of revenues that we receive in any given year is subject to change. Because decisions are made regarding the level of production prior to the time that the volume of orders and the market price for those orders is known, it is possible that we will have too much or not enough product available, each with the attendant impact on revenues, margins and profitability.

Our revenues depend on the ability of a large number of small farmers buying seed for cash because financing for purchases of this size and type is not available; therefore, if a substantial number of our customers become unable to pay for seed, our sales, revenues and profitability will decline.

We have a large and diversified customer base, with no single customer representing more than 1% of our revenues. The large customer base provides some protection against the loss of revenues due to the inability of a significant number of our customers paying for seed that has been previously ordered. However, the unavailability of credit for farmers in the PRC reduces the ability of those farmers to withstand the effects of difficult economic times. The lack of credit could prevent them from fulfilling their purchasing commitments with the result that our revenues and profitability would be reduced.

Competition, both domestic and foreign, may slow or reverse our recent rapid growth, which could result in a decrease in margins and cause an operating loss.

Competition may develop from consolidation within the Chinese seed industry and privatization of seed producers that are extensions of the county governments. A number of companies are developing using more efficient business models. Competition may develop from foreign seed producers who have high-quality products. As competition develops, we will expect our recent rapid growth to slow and will probably experience a reduction in margins. As marketing expenses increase, we may experience operating losses.

Technological change in creating seed hybrids could adversely affect our business, causing a loss in business opportunities, market share and revenues.

We currently rely upon traditional methods of creating crop seed hybrids to develop new products. While these methods are highly effective, there has been an increase in the development of genetically modified agricultural products to increase the quality and quantity of crop yields. This new genetic technology is controversial, and it has not been widely accepted in many regions of the world, including the PRC. However, as the ability to use genetic modification to produce seeds that are superior to or less costly than those that we produce by traditional methods increases, the threat of competition from this source becomes more realistic. A number of factors that are difficult to predict, such as a shift among farmer and consumer attitudes making these kinds of products more or less acceptable, affect the extent to which this potential threat could affect our business prospects.

We are taking steps to respond to the competition risk presented by genetically modified agricultural products. We have commenced our own research and development efforts for genetically modified seeds, and we have entered into an agreement with a research institution in the PRC working on genetic modifications that give us the right to market the seeds they develop. However, there can be no assurance that these efforts will be successful in producing improved seed varieties that are able to compete with those produced by other genetically-modified seed producers.

If we do not comply with PRC regulations, we may not be able to operate our business or we may be fined, causing an adverse effect on our business, operations and revenues.

The PRC has many regulations relating to the seed business, including obtaining and maintaining operating licenses. Seed products also must be licensed and undergo a stringent review process before they may be sold in the PRC. Although we currently have all the necessary licenses, and we believe we are in compliance with applicable laws and regulations for our business, if we are not in compliance then we may be fined or lose the ability to sell a particular seed or operate our business altogether. If the fines are substantial or the ability to sell or operate is withdrawn, this will result in additional costs or the loss of revenues and perhaps our ability to continue as a business.

We may become a passive foreign investment company, or PFIC, which could result in adverse U.S. tax consequences to U.S. investors. To be confirmed

Depending upon the value of our shares and the nature of our assets and income over time, we could be classified as a passive foreign investment company, or PFIC, by the United States Internal Revenue Service, or IRS, for U.S. federal income tax purposes. If we are classified as a "PFIC" in any taxable year in which you hold our shares and you are a U.S. investor, you would generally be taxed at higher ordinary income, rather than lower capital gain rates, if you dispose of shares at a gain in a later year, even if we are not a PFIC in that year. In addition, a portion of the tax imposed on your gain would be increased by an interest charge. Moreover, if we were classified as a PFIC in any taxable year, you would not be able to benefit from any preferential tax rate with respect to any dividend distribution that you may receive from us in that year or in the following year. Finally, you would also be subject to special U.S. tax reporting requirements.

We believe that we were not a PFIC for the taxable year 2005. However, there can be no assurance that we will not be a PFIC for the taxable year 2006 and/or later taxable years, as PFIC status is re-tested each year and depends on the facts in such year. For example, we would be a PFIC for the taxable year 2006 if the sum of our average market capitalization, which is our share price multiplied by the total amount of our outstanding shares, and our liabilities over that taxable year is not more than twice the value of our cash, cash equivalents, and other assets that are readily converted into cash. We could also be a PFIC for any taxable year if the gross income that we and our subsidiaries earn from investing cash exceeds the immediate capital needs of our active business is substantial in comparison with the gross income from our business operations.

While we will continue to examine our results under the PFIC tests, we cannot assure you that we will not be a PFIC for any future taxable year. For more information on the U.S. tax consequences to you that would result from our classification as a PFIC please see Item 10E, “Additional Information—Taxation — United States federal income taxation — U.S. Holders — Passive Foreign Investment Company.”

Any diversion of management's attention to matters related to acquisitions or any delays or difficulties encountered in connection with integrating acquired operations may have an adverse effect on our business, results of operations, and/or financial condition.

We have recently completed several acquisitions involving seed companies. These transactions are designed to contribute to our long-term growth. We must fit such acquisitions into our growth strategies to generate sufficient value to justify their cost. Acquisitions also present other challenges, including geographical coordination, personnel integration and retention of key management personnel, systems integration and the reconciliation of corporate cultures. Those operations could divert management's attention from our business or cause a temporary interruption of or loss of momentum in our business and the loss of key personnel from the acquired companies.

Our business benefits from certain PRC government incentives. Expiration of, or changes to, these incentives could have a material adverse effect on our operating results.

The PRC government has provided various incentives to high-technology companies in order to encourage development of the high-technology industry. Such incentives include reduced tax rates and other measures. For example, Henan Origin is currently entitled to a preferential tax rate of 15% as a high technology company. Origin Biotechnology is also entitled to a preferential tax rate of 15% as a high technology company, and was exempted from income tax in 2005. As these tax benefits expire, the effective tax rate will increase, which could have a material adverse effect on our financial condition and results of operations. In addition, repeal of privileges granted by the Chinese government to the seed industry, such as subsidies, could adversely affect our earnings as well.

Efforts to protect our intellectual property rights and to defend against claims against us can increase our costs and will not always succeed; any failures could adversely affect sales and profitability or restrict our ability to do business.

Intellectual property rights are crucial to our business. We endeavor to obtain and protect our intellectual property rights where our products are produced. However, we may be unable to obtain protection for our intellectual property. Even if protection is obtained, competitors, growers, or others in the chain of commerce may raise legal challenges to our rights or illegally infringe on our rights, including through means that may be difficult to prevent or detect. In addition, because of the rapid pace of technological change, and the confidentiality of patent applications in some jurisdictions, competitors may be issued patents from applications that were unknown to us prior to issuance. These patents could reduce the value of our commercial or pipeline products or, to the extent they cover key technologies on which we have unknowingly relied, require that we seek to obtain licenses or cease using the technology, no matter how valuable to our business. We cannot assure you we would be able to obtain such a license on acceptable terms. The extent to which we succeed or fail in our efforts to protect our intellectual property will affect our costs, sales and other results of operations.

Our ability to estimate growers' future needs, and match our production and the level of product at our distributors to those needs, has a significant effect on our sales.

Growers' decisions are affected by market, economic and weather conditions that are not known in advance. Failure to provide distributors with enough inventory of our products will reduce our current sales. However, high product inventory levels at our distributors may reduce sales in future periods, as those distributor inventories are worked down. In addition, inadequate distributor liquidity could affect distributors' ability to pay for our products and, therefore, affect our sales or our ability to collect on our receivables.

Deficient railway transportation capacity in the Northwestern China may result in the increase of our transportation related costs and thus adversely affect our business.

Our major production base is located at Linze County, Gansu Province, China. Seeds produced there are transported throughout China each year by means of railway, which is currently the most cost efficient way. With economic development and frequent flow of material, the North-West railway is obviously deficient in term of its transportation capability. As our volume of freight increases year by year, the seeds may have to be transported by other vehicles if the railway cannot guarantee the increasingly larger volume of freight. The production costs thus will grow accordingly with the increase of transportation costs, which will adversely affect our business.

There are difficulties in managing the storage system, which may result in damage of seeds in storage and operating losses.

There is a high risk for seed storage, due to difficulty in management of moisture, temperature, humidity of storage condition, any failure of which may result in damage of seeds in store and operating losses.

Seasonal Sales changes of our main products result in cyclical changes of cash flow and operating activities, which may cause difficulties in our capital chain and have a material and adverse effect on our business operations.

The sales season of our main products lasts from September to June of the following year, and we essentially basically do not have any sales revenue from July to August, which results in cyclical changes of our cash flow and operating activities. From July to August in each year, our cash flow will be very limited, so that any failure in utilizing capital during this period may cause difficulties in our capital chain, and therefore may have a material and adverse effect on our business operations.

If we fail to maintain an effective system of internal controls, we may be unable to accurately report our financial results or prevent fraud or restatement of previously reported financial results, and investor confidence and the market price of our shares may be adversely impacted.

We will become subject to Section 404 of the Sarbanes-Oxley Act of 2002 in the fiscal year ending December 31, 2006, which requires us set out a management report containing an assessment on our internal controls over financial reporting in our annual report. It also requires an independent registered public accounting firm attest to and report on management's assessment of the effectiveness of our internal controls over financial reporting. If we cannot implement the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 in a timely manner or with adequate compliance, our independent auditors may not be able to provide a written attestation as to the effectiveness of our internal controls over financial reporting and we may be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission. It could also result in the loss of investor confidence in us, in particular the reliability of financial statements, which in turn could harm the our business and negatively affect the market price of our shares. Furthermore, we may be required to incur significant costs for compliance with Section 404, and thereby increase our costs relative to our revenues and decreasing our operating margins.

We have limited business insurance coverage in China.

The insurance industry in China is still at an early stage of development. In particular, PRC insurance companies do not offer extensive business insurance products. As a result, we do not have any business liability or disruption insurance coverage for our operations in China. Any business disruption, litigation or natural disaster might result in our incurring substantial costs and the diversion of resources.

Risks relating to organization of our business and our structure

Three of the PRC Operating Companies will be controlled subsidiaries through stock consignment agreements rather than by direct ownership of shares, the terms of which may have to be enforced, which would require us to incur extra costs, create uncertainty as to ownership of the operating businesses involved and the possible loss of rights.

Under PRC law, foreign entities are not currently permitted to own more than 49% of a seed production company. In order to address those restrictions, We, a non-Chinese entity that cannot directly own the shares of three of the PRC Operating Companies, will instead hold the right to control such shares in all respects, including voting, dividends, nomination of directors, and corporate management, through stock consignment agreements executed by the owners of the stock of these companies. When the shares can be transferred, they will be transferred to us for no additional

consideration.

There is the risk, however, that a consigning stockholder will not fulfill its obligations under the stock consignment agreement. In that event, we may need to resort to PRC courts to have our rights under the agreements enforced. Such enforcement will cause us to incur legal expenses. In addition, while a case is pending there will be uncertainty regarding our rights as to the PRC Operating Companies involved. In addition, a PRC court may decide not to enforce the agreements in part or at all. To the extent these agreements are neither observed nor enforced as intended, the PRC Operating Companies will not be controlled by us as intended, which will affect our value and restrict our ability to obtain the income and other rights of ownership associated with the consigned stock. It may also prevent the consolidation of our financial statements with the PRC Operating Companies, which would reduce the reported earnings of the consolidated companies. The uncertainty of ownership may also affect the market value of the company.

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Whether or not a consignment agreement is terminated depends on the consensus of our board and the consignees, the result of which termination would be a possible loss of some rights or assets held by us without receiving fair value in return.

The consignment agreements relating to our control of the stock of three of our PRC Operating Companies (not including Origin Biotechnology) may be terminated after three years upon mutual agreement between us and the consignees. Three of the consignees, Messrs. Han, Yang and Yuan, also serve as our officers and/or directors. These three persons own, in the aggregate, 8,619,350 shares of our common stock, or about 37% of our issued and outstanding common stock. Holding such amount of stock will allow them to control or greatly influence the selection of directors and matters submitted to a vote of our stockholders. One of the things they could vote to do is terminate the consignment agreements.