

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is an industrialised floricultural and agricultural enterprise, which utilises advanced biotechnologies in the hybridisation, clonal propagation of plants and computerised greenhouse facilities in the cultivation and production of floricultural and agricultural produce. The two primary floricultural produce of the Group are Phalaenopsis and Cymbidium seedlings. Through domestic and overseas wholesale floricultural distributors, the Group distributes and sells its floricultural produce in the PRC, the Netherlands and other Asia Pacific countries including Japan and South Korea. As a means to further diversify the Group's product range, the Group has applied its computerised greenhouse cultivation and soilless cultivation technologies in the cultivation of vegetables such as tomatoes, cucumbers and sweet peppers. All these new produce will be put into pilot sales commencing from the late second half of 2001.

The Directors are pleased to announce the Group's first interim results since the listing of the Company's shares on the Main Board of the Hong Kong Stock Exchange. For the six months ended 30 June 2001, the Group recorded a turnover of approximately RMB507,119,000, representing an increase of approximately 51.8% as compared to the turnover for the same period in 2000. Generally, the increase was mainly due to the continued growth of the overall demand for the Group's floricultural produce from both the overseas and domestic PRC markets. Domestic PRC demand for orchid seedlings increased significantly this year, which was due to the rising popularity and wider acceptance of orchids as ornamental flowers in the PRC. The Directors believe that the PRC market will be a significant growth driver for the Group's future sales. As for overseas markets, the Netherlands, Japan and South Korea remain the major overseas markets of the Group. Based on the understanding of the Directors, the floricultural wholesaler based in the Netherlands resells the Group's floricultural produce to the Netherlands as well as to cities and countries within the Asia Pacific region such as Taiwan, Hong Kong, Thailand and Singapore. Although the overall consumption of floricultural produce in these overseas markets remained relatively stable as compared to the PRC market, the Directors consider that leveraging on the Group's cost advantage, there is much room for further penetration of the Group's floricultural produce in the Asia Pacific region.

The gross profit margin and net profit margin for the six months period ended 30 June 2001 were 46.8% and 42.9% as compared to 31.4% and 26.5% respectively for the same period in 2000. The significant improvement of the two performance ratios was attributable to the sales of self-propagated orchid seedlings and the cost reduction effect resulting from economies of scale. Commencing from the second half of 2000, the Group started to sell self-propagated orchid seedlings with a much higher profit margin. Cost of self-propagated orchid seedlings is approximately 50% less than those purchased from other seedling suppliers in the PRC. Further, the sales of self-propagated orchid seedlings represented 31.8% of the Group's total sales for the six months period under review. The effect of economies of scale had also reduced the gap between the gross profit margin and the net profit margin to approximately 3.9% as compared to 4.9% for the same period in 2000.

During the period under review, the Group continued to carry on research studies on the

development and cultivation of other floricultural produce such as Cattleya. Pilot sales of Cattleya were made in the first half of this year.

PROSPECTS

The Board of Directors believes that the Group is currently facing the high expansion phase of its business cycle since the demand from both the domestic PRC market and overseas markets far exceeds the existing production capacity of the Group. However, the limited area of greenhouse facilities engaged in cultivation restricts the Group's plan to diversify into new produce such as vegetables. As a result, it has been the top priority of the Group to build additional greenhouse facilities.

As disclosed in the prospectus dated 9 July 2001, upon listing of the Company's shares on the Hong Kong Stock Exchange, there are greenhouse facilities with an aggregate area of 10 hectares under construction and owned by Shenyang Euro-Asia Industrial Company Ltd., ("SEAI"). The Group has the first right of refusal to acquire such greenhouse facilities at their construction cost when SEAI can resolve the regulatory issue regarding the underlying land so that the Group can legally rent and use it. The Directors expect that such construction will be completed in the late second half of this year and it is the present intention of the Group to acquire such greenhouse facilities so as to fulfill current expansion plans of the Group. At present, the Group has also entered into a preliminary rental memorandum with a local villagers' committee for a piece of land situated adjacent to the Group's headquarters. Such piece of land will be sufficient to accommodate the establishment of computerised greenhouse facilities with an aggregate area of approximately 30 hectares.

With a view to enhance the Group's own distribution power, the Group has taken steps to set up a sales and promotion office in Japan, which is expected to commence operation by the end of September 2001. Such office is responsible for exploring the direct sales opportunity and promoting the Group's brand name.

LIQUIDITY AND FINANCIAL RESOURCES

For the six months ended 30 June 2001, the Group generally financed its operation by internally generated cash flow and did not have any loan borrowing. Net current assets as at 30 June 2001 were approximately RMB254,733,000 while the current ratio being healthy at 4.1.

As disclosed in the prospectus of the Company dated 9 July 2001, the net proceeds from the listing of the Company's shares on the Hong Kong Stock Exchange will be applied on expanding the Group's culturing and cultivation facilities, purchasing additional greenhouse facilities, research and development, setting up of sales and promotional offices, and general working capital purposes.

With the above financial resources and the proceeds raised from the flotation of the Company in July 2001, the Directors are confident that the Group has adequate capital resources to finance its business expansion.

SUBSTANTIAL SHAREHOLDERS

As of the date of 7 September 2001, shareholders holding shares representing over 10% or more of the Company's issued capital as recorded in the register of substantial shareholders's interests maintained by the Company pursuant to provisions of section 16(1) of the Securities (Disclosure of Interests) Ordinance are as follows:

Shareholder	Number of Shares	% of issued share capital
Wise Capital (Note)	1,200,000,000	72.3%
Mr. Yang Bin (Note)	1,200,000,000	72.3%

Note:

Wise Capital is a company incorporated in Mauritius with limited liability which is legally and wholly owned by Mr. Yang Bin who is entitled to exercise 100% of the voting powers at general meetings of Wise Capital.

INTERIM DIVIDEND

The directors have recommended nil interim dividend payable to the shareholders of the Company.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the period from listing of the Company's shares on the Hong Kong Stock Exchange up to the date hereof, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would indicate that the Company was not in compliance with the "Code of Best Practice" set forth in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange for the relevant period being the period from the date of listing of the shares of the Company up to and including the date of this interim report.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF HKSE

The 2001 interim report containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange will be published on the Hong Kong Stock Exchange's website (www.hkex.com.hk) in due course.

By Order of the Board
Yang Bin
Chairman

Hong Kong, 7 September, 2001