



Overall Results

For the year ended 30 June 2002, the Group's consolidated turnover was approximately HK\$349,291,000 (2001: HK\$187,161,000) and net profit attributable to shareholders was approximately HK\$62,260,000 (2001: HK\$60,599,000), representing a growth of approximately 87% and 3% respectively as compared to the last financial year.

During the year, the Group incurred approximately HK\$6,500,000 professional fee expenses for the change of its listing from GEM to main board of the Stock Exchange. If such non-recurring expenses were excluded, the net profit attributable to shareholders would have increased by approximately 13% as compared to the last year.



The financial year ended 30 June 2002 marked a transitional year for the Group and resembled a period of business diversification. In particular, the Group commenced the operation of agricultural resources trading business in Fujian Province of the Mainland China in the last quarter of the financial year 2001 and began to expand into four other provinces since financial year 2002. As the agricultural resources trading business is a quantity-driven business and the gross profit margin is only approximately 5%, which is relatively much lower than the gross profit margin level of the PGR business of over 70%, and that the turnover of this business increased by 581% as compared to that of the last financial year and accounted for approximately 45% of the Group's consolidated turnover, the overall gross profit margin of the Group was averaged to approximately 43% (2001: approximately 68%). Also, as the growth of PGR business becomes relatively steadier than previous years, and that the business of trading of agricultural resources products is yet to be profitable, the overall net profit attributable to shareholders only slightly increased as compared to the last financial year.



A summary of the turnover, gross profit, gross profit margin and segment results by scope of business, say, production and sale of PGRs and trading of agricultural resources products, is as follows:

	Production & sale of PGRs		Trading of agricultural resources products			
	2002 HK\$'000	2001 HK\$'000 (Restated)	2002 HK\$'000	2001 HK\$'000 (Restated)	2002 HK\$'000	2001 HK\$'000 (Restated)
Turnover	190,467	163,835	158,824	23,326	349,291	187,161
Gross profit	142,520	125,331	8,404	1,580	150,924	126,911
Gross profit margin	75%	76%	5%	7%	43%	68%
Segment results	88,461	72,931	(8,643)	(1,469)	79,818	71,462

Plant Growth Regulators



In the past few years, the Group experienced a rapid growth in terms of both turnover and net profit attributable to shareholders as a result of continuous and rapid expansion of the PGR business as financed by the proceeds from the Group's listing on the GEM of the Stock Exchange in November 1999.

In June 2002, the Group added one production line for PGR for corn after the completion of R&D at the end of 2001. Therefore, the Group currently has a total of nine production lines for PGRs, comprising one line for vegetables, two for fruits, two for rice, one for tobacco, one for flowers, one for edible fungi and one for corn.

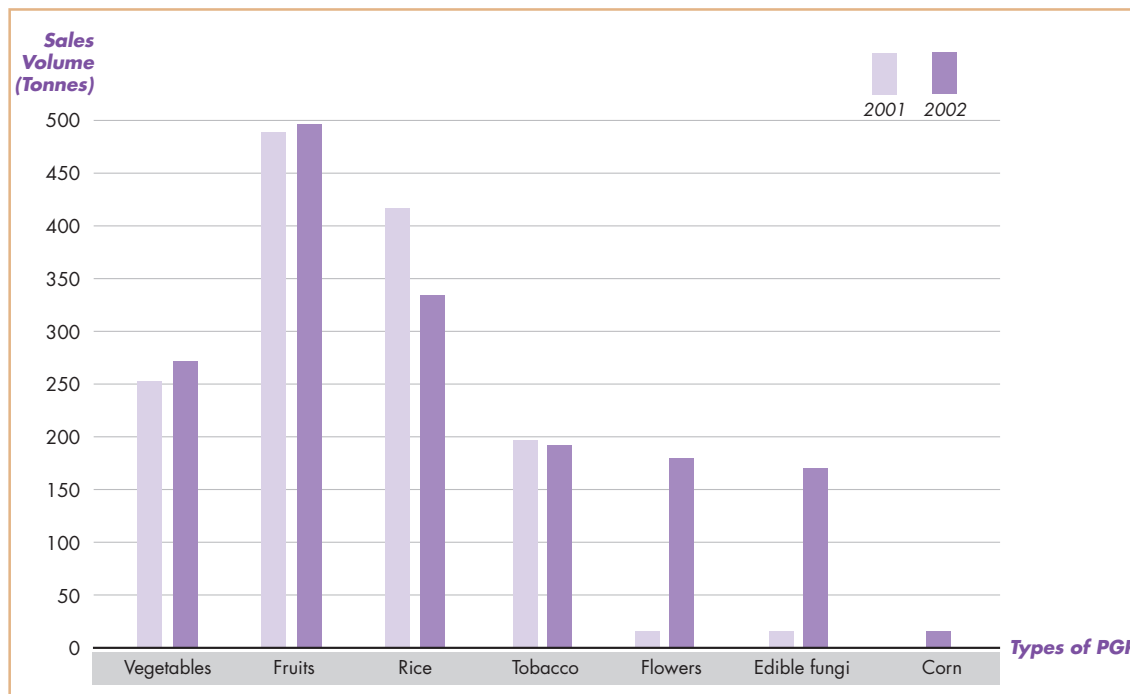
The turnover and operating profit derived from PGR business were approximately HK\$190,467,000 (2001: HK\$163,835,000) and HK\$88,461,000 (2001: HK\$72,931,000) respectively, an increase of 16% of 21% respectively as compared to the last financial year. The increase was mainly attributable to the full year contribution from the sales of PGR for flowers and edible fungi, the R&D of which was successfully completed in the last financial year; as well as the steady increase in sales of PGRs for vegetables and fruits. Moreover, the gross profit margin was maintained at a stable level.

During the year ended 30 June 2002, the Group invested approximately HK\$7.5 million on nationwide advertising and promotion activities for its PGR business.



For the year ended 30 June 2002, the Group's sales volume of PGRs increased to 1,655 tonnes (2001: 1,382 tonnes), an increase of approximately 20% over the last financial year. A summary of the sales volume of various types of PGRs and their percentage over total sales volume is as follows:

	For the year ended 30 June			
	2002		2001	
	tonnes	%	tonnes	%
PGR for vegetables	271	16%	252	18%
PGR for fruits	495	30%	487	36%
PGR for rice	333	20%	415	30%
PGR for tobacco	192	12%	196	14%
PGR for flowers	179	11%	16	1%
PGR for edible fungi	170	10%	16	1%
PGR for corn	15	1%	—	—
	1,655	100%	1,382	100%



In respect of new PGR products, the Group is cooperating with several different research institutes for the research and development of PGR for tea, cotton, Chinese herbs, soya beans, high oil-yield corn and corn for fresh consumption. The aggregate contract sums for R&D of these new PGRs is approximately HK\$25 million, of which approximately HK\$12 million was paid during the financial year ended 30 June 2002. It is expected that these R&D projects will be completed successively from 2003 to 2004 and be put into commercial production thereafter.



Agricultural Resources Trading Business

The Group commenced the business of trading of agricultural resources products since March 2001 of the last financial year in Fujian Province of the Mainland China. During the year under review, the business was expanded into four other provinces in the Mainland China through the setting up of joint venture companies with local agricultural resources wholesale dealers in Shanxi, Jiangxi, Hunan and Jiangsu provinces.

In addition, the Group has secured province-wide exclusive distribution rights in the Mainland China for over 100 domestic and overseas agricultural resources products.

For the year ended 30 June 2002, turnover from the trading business amounted to approximately HK\$158,824,000 (2001: HK\$23,326,000), representing an increase of approximately 581% from the last financial year and contributed to 45% (2001: 12%) of the consolidated turnover of the Group, hence demonstrating the rapid growth of the trading business and its role as an important contribution to the Group.

In particular, the essence of the joint ventures were set up in the way that the Group agreed to acquire from the respective joint venture partner its original agricultural resources trading business (say, those intangible assets including brand name, sales network, business goodwill, customer information etc.) for an agreed consideration and to transfer such intangible assets into the joint venture company set up with the joint venture partner where the Group and the joint venture partner own 70% and 30% respectively of the equity of the joint venture company. During the year, the Group entered into eight separate joint venture agreements with different local agricultural resources wholesale dealers and the total cost of acquisition of the original businesses of such wholesale dealers aggregated to approximately HK\$30.6 million, of which approximately HK\$13.7 million was paid during the year while the remaining balance will be paid progressively during years 2002 to 2004.



In order to promote the cross-province agricultural resources distribution and retail business and to enhance the reputation and brand name of the Group, the Group invested approximately HK\$7.5 million on nationwide advertising and promotion activities and market researches.

Moreover, the Group signed contracts with different agricultural products testing and promotion institutes in each of the five provinces, say, Fujian, Shanxi, Jiangxi, Hunan and Jiangsu. These institutes own and manage a lot of farmlands in the province in which they are situated and are responsible for doing testing and demonstration works on agricultural resources products such as fertilizers and pesticides as selected and instructed by the Group from time to time, as well as arranging site visits for farmers and agricultural resources dealers. The total contract sums for the testing and demonstration works in the five provinces amounted to approximately HK\$12 million, of which approximately HK\$6 million was expensed during the year.



As the business was still at the initial expanding stage, considerable amount of advertising and promotion expenses as mentioned above need to be incurred and that the business was quantity-driven with a relatively low gross profit margin of approximately 5%, the business recorded an operating loss of approximately HK\$8,643,000 during the year ended 30 June 2002 (2001: loss of HK\$1,469,000).

The Group also invested approximately HK\$45 million in the development of a computer system for inventory and cash flow management, centralised accounting, data analysis and on-line trading.

Nevertheless, the Group expects that when the trading business in the five provinces are gradually put on track, the customer networks will become more strengthened and enlarged and the synergetic effect will then be more pronounced. In the years to come, the Group will identify suitable provinces and regions for business expansion; and secure more product exclusive distribution rights. As such, the business will contribute a remarkable profit for the Group in the near future and become a core business of the Group.

Investment in a Biological Pesticide and a Fertiliser

In August 2002, the Group entered into an agreement with the Biotechnology Research Centre of the Fujian Agricultural School for the acquisition of the intellectual property rights in relation to a biological pesticide (called BtA) for a total consideration of approximately HK\$45,257,000. The Group had already paid a deposit of approximately HK\$16,975,000 in September 2000 and the remaining balance was fully settled at the end of August 2002.



The Company's directors and the Group's management are of the opinion that the underlying value of the intellectual property rights relating to the BtA technology is not less than the aggregate consideration for acquisition by reference to its open market value as at 30 September 2002 as appraised by independent qualified valuers.

The Group also entered into agreements for the purchase and installation of machinery for the production of BtA, for an aggregate consideration of approximately HK\$16,972,000, of which approximately HK\$11,314,000 was paid by the Group as deposits as at 30 June 2002.

On the other hand, the Group also entered into an agreement with the Resources and Environment School of Fujian Agriculture and Forestry University (福建農林大學資源與環境學院) for the acquisition of the intellectual property rights in relation to the production of an amino-acidic liquid fertiliser (氨基酸液肥) for a consideration of approximately HK\$7,166,000 of which approximately HK\$4,715,000 was paid as at 30 June 2002.

Liquidity and Financial Resources

Financial resources

The Group generally finances its operations with internally generated cashflow for its capital expenditures and other capital requirements.

On 31 October 2001, the Group raised HK\$28,200,000 from the exercise of certain of the unlisted warrants of the Group issued in November 2000, to subscribe for 20,434,782 shares in the Company at a subscription price of HK\$1.38 per share. The remaining unlisted warrants lapsed on 7 November 2001.



As at 30 June 2002, the cash and cash equivalents balance of HK\$35,545,000 included HK\$4,210,000 which was denominated in Hong Kong dollars and HK\$31,335,000 which was denominated in Renminbi.

With respect to foreign exchange exposure, as the Group's earnings and borrowings are primarily denominated in Renminbi and that the exchange rate between Renminbi and Hong Kong dollar was steady during the year under review, it has no significant exposure to foreign exchange rate fluctuations. During the year under review, the Group had not used any financial instruments for hedging purposes.

Borrowings and banking facilities

The Group repaid a bank loan of HK\$47 million during the year and had no bank borrowing as at 30 June 2002. Therefore, the Group maintained a zero gearing ratio as at 30 June 2002.

As at 30 June 2002, the Group had bills payable of approximately HK\$23,706,000 which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of the Group of approximately HK\$9,054,000 which was also denominated in Renminbi.

Commitments

As at 30 June 2002, the Group had outstanding contracted capital and other commitments of approximately HK\$28,703,000 in respect of acquisition of fixed assets, computer system development costs, product R&D costs, as well as advertising and promotion expenses. As at 30 June 2002, the Group had operating lease commitments of approximately HK\$1,549,000.

Contingent liabilities

As at 30 June 2002, the Group had no material contingent liabilities.

Remuneration Policies and Share Option Scheme

The Group incurred total salaries and other remunerations of approximately HK\$8,663,000 with a total number of about 500 staff during the year ended 30 June 2002.

Remuneration packages comprised salary, mandatory provident fund and year-end bonus based on individual merits. A share option scheme was adopted by the Company, pursuant to which the directors may offer to any participant (as defined in the share option scheme), including executive directors, of the Company and any of its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the share option scheme. However, no options were granted, exercised or outstanding during the year ended 30 June 2002.