



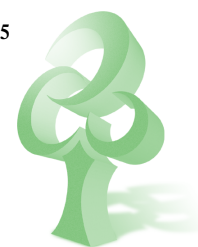
Management Discussion and Analysis

OVERALL RESULTS

For the year ended 30 June 2005, the Group's consolidated turnover was approximately HK\$1,640,708,000 (2004: HK\$822,027,000) and net profit attributable to shareholders was approximately HK\$21,511,000 (2004: HK\$14,882,000), representing a growth of approximately 100% and 45% respectively as compared to the last financial year.

During the year ended 30 June 2005, the Group's agricultural resources distribution business achieved remarkable growth as a result of further expansion of market coverage and strengthening of its market position. Besides, the business of plant protection technical services achieved further growth during the year. However, as mentioned in the last year, the plant growth regulator ("PGR") and BtA produced by the Group fall into the categories of pesticides that are subjected to PRC government environmental test, the production of these products was suspended during January to October 2004, which substantially dragged down the turnover and operating profit contributed by these two products for four months (July to October 2004) during the financial year. Besides, in order to assess the market response regarding the re-launch of the two products, the production was temporarily suspended during the slack season from January to April 2005 and only limited production was made since May 2005. Moreover, only those types of PGR with larger demand, like PGR for vegetable, fruits, corns and soya beans are produced from the economic efficiency point of view.

As the turnover from agricultural resources trading business further boost up while the gross profit margin is only approximately 5%, which is relatively much lower than the average gross profit margin level of the manufacturing business of 43%, and that the turnover of the trading business increased by 86% as compared to that of the last financial year and accounted for approximately 72% (2004: approximately 77%) of the Group's consolidated turnover, together with commencement of trading of non-agricultural resources products during the year with a turnover of approximately HK\$355,667,000 and gross profit margin of only 1%, the overall gross profit margin of the Group was averaged and decreased to approximately 7% (2004: approximately 12%). Although the manufacturing business suffered a considerable decline during the year ended 30 June 2005, the overall net profit attributable to shareholders increased by 45% as compared with the last financial year, which is mainly contributed by the remarkable improvement of the trading business in the current year.



Management Discussion and Analysis

A summary of the turnover, gross profit, gross profit margin and segment results by scope of business, say, trading of agricultural resources products (“trading operation”), manufacturing and selling of agricultural resources products (PGRs, pesticides and fertilisers) (“manufacturing operation”), provision of plant protection technical services (“consultancy operation”), and trading of non-agricultural resources products (“non-agricultural resources trading operation”) is as follows:

	Trading operation		Manufacturing operation		Consultancy operation		Non-agricultural resources trading operation		Other operation		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	1,177,315	631,537	94,587	187,846	13,139	2,644	355,667	-	-	-	1,640,708	822,027
Gross profit	59,927	26,197	40,634	69,544	11,176	1,531	3,791	-	-	-	115,528	97,272
Gross profit margin	5%	4%	43%	37%	85%	58%	1%	-	-	-	7%	12%
Segment results	4,644	(19,323)	20,363	41,059	5,747	1,225	1,334	-	(4,563)	(4,740)	27,525	18,221

AGRICULTURAL RESOURCES TRADING BUSINESS

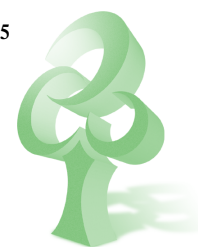
During the year under review, the Group’s agricultural resources trading business further expanded and penetrated into its existing markets and reached other new markets. Currently, the Group’s agricultural resources trading business covered eight provinces, namely, Fujian, Shanxi, Jiangxi, Hunan, Jiangsu, Hainan, Hubei and Shandong, as well as Shanghai city.

During the year, the Group acquired several agricultural resources trading business from local famous agricultural resources enterprises, so as to further strengthen its market position and coverage.

Moreover, the Group formed a joint venture with a provincial level large agricultural resources enterprise in Hunan province, which further strengthen the Group’s market penetration and coverage in Hunan province. During the year ended 30 June 2005, the joint venture entity contributed a turnover and operating profit of approximately HK\$85 million and HK\$4 million respectively to the Group. Please also refer to the Company’s announcement dated 4 January 2005 for further details of the transaction.

For the year ended 30 June 2005, turnover from the trading business amounted to approximately HK\$1,177,315,000 (2004: HK\$631,537,000), representing an increase of approximately 86% from the last financial year and contributed to approximately 72% (2004: 77%) of the consolidated turnover of the Group, demonstrating the continued rapid growth and expansion of the trading business and its role as a core business to the Group.

In respect of the sophisticated computer system which comprises supply chain management system, cash flow management platform and financial information system, it was widely applied in the distribution network of the Group.



Management Discussion and Analysis

The trading business is quantity-driven with a relatively low gross profit margin of approximately 5% and therefore, requires a considerable high turnover level in order to generate adequate gross profit to cover promotion and advertising expenses and amortisation of computer system development cost and goodwill arising from business acquisitions. Nevertheless, as a result of the continued expansion of the trading business in the financial year under review and the consequent realisation of the effect of economy of scale, the business recorded a remarkable turnover of approximately HK\$1,177,315,000 and achieved an operating profit (excluding impairment loss/amortisation of goodwill arising from business acquisitions and computer system development costs) of approximately HK\$28,463,000 (2004: operating loss of approximately HK\$824,000, excluding amortisation of goodwill arising from business acquisitions and computer system development costs).

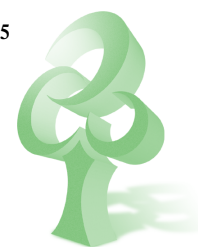
In the years to come, the Group believes the trading business in the existing provinces will be more strengthened, the customer networks will become more mature and enlarged and the synergetic effect will be more pronounced. In the future, the Group will identify suitable provinces and regions for further business expansion and market penetration; secure more product exclusive distribution rights from local and overseas suppliers; and achieve further synergetic effect from the provision of plant protection technical services to customers. As such, the trading business will contribute to a remarkable profit for the Group in the near future.

AGRICULTURAL RESOURCES PRODUCTION BUSINESS

In the fertilisers production front, the phosphorous fertiliser production plant in Hubei province contributed a turnover of approximately HK\$17.1 million (2004: HK\$5.3 million) during the year. The Group also acquired a fertiliser manufacturing business from a Fujian manufacturer who is specialised in production of a various kinds of compound fertilisers in October 2004. The compound fertiliser manufacturing business contributed a turnover of approximately HK\$13.4 million to the Group during the year. The fertilisers manufacturing business is expected to further improve in the back of the Group's circulation platform.

In respect of pesticides production, apart from the products (namely PGR and BtA) which were subject to the tests required under the PRC's agricultural policy, and hence with production suspended for four months during the year, the Group commenced, since March 2005, the production and launch of a majority of the 28 newly developed pesticides, germicide and miticide acquired in the last year, which contributed a turnover of approximately HK\$3.7 million for the year, although the gross profit margin is relatively lower with only 11% due to the giving of lower selling price to distributions during initial launching stage in order to gain market share. It is expected that the gross profit margin can be improved to 30% level when the 28 new pesticides, germicide and miticide are recognised by the market.

For PGR, the turnover and operating profit were approximately HK\$52.9 million (2004: HK\$96.5 million) and HK\$24.6 million (2004: HK\$48.8 million) respectively, representing a decrease of 45% and 50% respectively as compared to the last financial year. The decrease was mainly due to the suspension of production since January 2004 in order to comply with the new government policy of product testing for environmental purpose, which resumed since November 2004 and hence affected four months' production during the year. Also, production was further suspended from January to April 2005 in order to assess the market response regarding the re-launch of PGR and as a result of change of production and sales strategies, and production re-commenced in May 2005 but with a lesser production scale. In respect of new PGR products, the Group launched PGR for corns during the year which received well market response.



Management Discussion and Analysis

For the biological pesticide (BtA), it contributed to a turnover and operation profit (excluding amortisation of acquisition cost of the intellectual property) of approximately HK\$10.5 million (2004: HK\$27.6 million) and HK\$1.3 million (2004: HK\$5.8 million) respectively for the year ended 30 June 2005, such decline in result is due to the same reason as that for PGR.

It is expected that the PGR and BtA sales will be improved upon the re-acceptance of the products by the market and adjustment of sales strategy in the upcoming year.

PLANT PROTECTION TECHNICAL SERVICES

The Group's plant protection technical services recorded a service income of approximately HK\$13,139,000 for the year ended 30 June 2005 (2004: HK\$2,644,000), demonstrating the rapid improvement of the business, in the back of the commencement of wide application of the distant diagnose system for plant diseases and pests of agriculture produces during the year.

NON-AGRICULTURAL RESOURCES PRODUCTS TRADING BUSINESS

In order to develop the Group into an international enterprise in face of China's accession in the WTO, and to minimise its business risk; as well as to increase the Group's cash flow generating capability so as to obtain better bank financing, the Group commenced export of non-agricultural resources products during the year. This business also allows the Group to gain import and export experience for future trading of agricultural resources products in the international markets.

Such business contributed a turnover of approximately HK\$355,667,000 with a gross profit margin of approximately 1%.

LIQUIDITY AND FINANCIAL RESOURCES

Financial resources

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

As at 30 June 2005, the cash and bank balances and restricted bank deposits of approximately HK\$167.6 million included approximately HK\$23.1 million which was denominated in Hong Kong dollars, approximately HK\$144.4 million which was denominated in Renminbi, and approximately HK\$0.1 million which was denominated in US dollars.

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/US 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.



Management Discussion and Analysis

Borrowings and banking facilities

As at 30 June 2005, the Group had bank borrowings of approximately HK\$129.9 million (denominated in Renminbi), which bore interest at rates ranging from approximately 4% to 7.3% per annum, of which approximately HK\$15.7 million, HK\$4.6 million and HK\$109.6 million were secured by bank deposit of HK\$17 million, certain land and buildings and machinery of the Group, and corporate guarantee of certain subsidiaries, respectively. As at 30 June 2005, the Group had bills payable of approximately HK\$309.5 million which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of approximately HK\$97.2 million which was also denominated in Renminbi.

As at 30 June 2005, the Group maintained a gearing ratio of approximately 39%. This is based on the division of bank borrowings by shareholders' equity as at 30 June 2005. The Directors considered that the gearing ratio as at 30 June 2005 was healthy, taking into account of the scale of operations of the Group.

Commitments

As at 30 June 2005, the Group had no significant outstanding contracted capital and other commitments. As at 30 June 2005, the Group had operating lease commitments of approximately HK\$1,236,000.

Contingent liabilities

As at 30 June 2005, the Group had no material contingent liabilities.

REMUNERATION POLICIES AND SHARE OPTION SCHEME

The Group incurred total salaries and other remunerations of approximately HK\$12.8 million with an average number of about 900 staff during the year ended 30 June 2005.

Remuneration packages comprised salary, mandatory provident fund and year-end bonus based on individual merits. A share option scheme (the "Scheme") was adopted by the Company pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31 December 2001. During the year ended 30 June 2005, no option was granted to the relevant participants under the Scheme (2004: options in respect of 30,000,000 shares were granted).