

Management Discussion and Analysis

PROFILE

During the financial year ended 31 December 2002, the Group is principally engaged in the agricultural businesses in the People's Republic of China (the "PRC") which currently include nurturing, selling and trading of tree seedlings and seeds, and the manufacture and sales of aquatics feed products in the PRC.

FINANCIAL PERFORMANCE

During the financial year ended 31 December 2002, the Group recorded a total turnover of HK\$54,768,000 (2001: HK\$139,341,000), representing a decrease of 60.7% as compared to the previous financial year. The loss from operating activities was HK\$88,600,000 (2001: HK\$40,452,000).

Sales of tree seedlings and seeds (which have been consolidated in the Group's results since 25 October 2002) of HK\$460,000 (2001: Nil) accounted for 0.8% (2001: Nil) of the total turnover, while sales of aquatics feed products of HK\$54,308,000 (2001: HK\$139,341,000) accounted for the remaining 99.2% (2001: 100%).

During the financial year ended 31 December 2002, the Group started to engage in business of nurturing, selling and trading of tree seedlings and seeds following its acquisition of Hebei Bashang Plant Seeds Co. Limited ("Hebei Bashang") at the end of October 2002. The sales of aquatics feeds declined during the financial year due to the intense competition in the domestic markets and the disposal of the eel feed operations.

BUSINESS REVIEW

Following the change of the Group's ownership and management at the end of 2001, the Group has adopted the strategy of "Knowledge and Capital Oriented Agriculture" and is principally engaged in high-tech, large-scale and industrialised agricultural businesses in the PRC.

In order to achieve the aforesaid goal with knowledge and capital as the keystone and to allow the Group to further broaden its revenue base, the Group acquired a 70% interest in Hebei Bashang at the end of October 2002. Hebei Bashang is principally engaged in the business of nurturing, selling and trading of tree seedlings and seeds in northern China and owns approximately 5,900 acres of land in Bashang, Shangyi county, Hebei, the PRC. The Board believes that the acquisition can provide an opportunity for the Group to benefit from the growth and earnings potential offered by Hebei Bashang in light of the full support by the PRC government of the national forestation project.

In addition to the acquisition of Hebei Bashang, the Group also disposed its eel feed operation, which continued to sustain losses for the second consecutive year, during the financial year. The Board believes that the operations disposed of are of little prospect to the Group and the disposal allows the Group to realise its investments such that the Group can utilise the proceeds from the disposal to finance other business developments.

After the completion of these transactions, the Group has completed its operational restructuring.

During the financial year, the Group has established a Strategy and Development Consultative Committee to advise on the Group's key research and development



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strategies. The Strategy and Development Consultative Committee is headed by Mr. Wang Lianzheng and comprised 6 members specialising in agriculture and related technologies.



source of funds for business expansion and operations was generated from its existing operations and the disposal of its subsidiaries.

The Group's sales are mainly transacted in Renminbi. Since the exchange rate fluctuation between Hong Kong Dollar and Renminbi is minimal, the Board considers that the exchange risk exposed is very low.

PROSPECTS

With the adoption of the "Knowledge and Capital Oriented Agriculture" strategy, the Group's prime objective is to diversify into agriculture-related businesses in relation to the provision of new and advanced technology for the enhancement of farming yield and efficiency of the agricultural industry in the PRC.

In order to achieve its objective, the Group will identify acquisitions or investment opportunities in agriculture projects and form joint ventures with third parties with the purposes which are in line with its core high-tech, large scale and industrialised agricultural business, such as the organic fertilizer business sector and vaccine-related business in the PRC.

In the long run, the Group would like to become a leading hi-tech agricultural conglomerate in the PRC.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2002, the Group's net current assets, total net assets and total assets were HK\$134,052,000, HK\$243,074,000 and HK\$358,573,000, respectively. The cash and cash equivalents were mainly denominated in Renminbi. The Group is permitted to exchange Renminbi for foreign currencies through the authorisation of the bank to conduct foreign exchange business under the relevant regulations of the laws in the PRC. Apart from proceeds from shares placing, the Group's main recurring

As at 31 December 2002, the Group's gearing ratio was 24.7%, which is expressed as a percentage of the long-term liabilities, but excluding deferred gain, over the shareholders' equity at the balance sheet date. Additionally, the Group's liquidity ratio was 663.1% as at 31 December 2002, reflecting the presence of sufficient financial resources. The calculation of liquidity ratio is based on the current assets of HK\$157,859,000 and the current liabilities of HK\$23,807,000 as at the balance sheet date.

The Company raised funds of approximately HK\$27 million by way of shares placing and subscription in May 2002. The proceeds were used for funding acquisition of investment projects and as general working capital of the Group.

In order to give the Board flexibility in pricing new issue of shares when circumstances necessitate, the Board proposed a capital reorganisation in April 2002 which involved the reduction of the nominal value of the shares of the Company from HK\$0.10 each to HK\$0.01 each and sub-division of shares on a one into ten basis. The

capital reorganisation was duly approved by shareholders at the special general meeting of the Company and became effective in May 2002.



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UNAUDITED PRO FORMA FINANCIAL DATA OF HEBEI BASHENG

Due to the seasonal nature of the tree seedling and seed business, the operating period of Hebei Bashang is normally from late March to early November each year.

As Hebei Bashang only became a member of the Group at the end of October 2002, in order to provide a meaningful assessment of its financial performance, the following unaudited pro forma financial data from its date of incorporation (20 May 2002) to the end of 2002 has been prepared:

Unaudited financial data	From 20 May 2002 (date of incorporation) to 31 December 2002	<i>HK\$'000</i>
Turnover	47,440	
Cost of sales	(23,594)	<u> </u>
Gross profit	23,846	
Operating expenses	(3,070)	<u> </u>
Profit from operating activities	20,776	
Tax	—	<u> </u>
Net profit	20,776	<u><u> </u></u>

Remarks:

1. The unaudited financial data of Hebei Bashang is prepared under the generally accepted accounting principles in Hong Kong.
2. Only 70% of interest in Hebei Bashang is attributable to the Group.
3. Cost of sales includes direct materials, direct labour and an appropriate proportion of manufacturing overhead.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2002, the total number of employees of the Group in Hong Kong and the PRC was 61. Staff costs amounted to HK\$3,825,000 (2001: HK\$2,116,000). The Board has long recognised that talent is vital to the Group's expansion. The salaries of employees are therefore determined at a competitive level based on their responsibilities and labour market conditions. Other staff benefits for Hong Kong employees include the Hong Kong Mandatory Provident Fund, insurance, professional training subsidies and grant of share options.

The new share option scheme adopted by the Company in June 2002 provided that the Board may grant to full-time employees (including Executive Directors) of the Group to subscribe for shares of the Company pursuant to the provisions of the scheme.

The Company also engaged into Directors Insurance Scheme for directors to protect the Group from any contingent liability that might arise in the course of normal business operations.

CONTINGENT LIABILITIES

As at 31 December 2002, the Group is not aware of any major contingent liabilities that will cause substantial change to the Group's operations, except for corporate guarantees of HK\$15,409,000 conditionally granted to a former subsidiary for its banking facilities.