

14. CAPITAL COMMITMENTS

	At 30 June 2003 HK\$'000	At 31 December 2002 HK\$'000
Capital commitments for investments in subsidiaries contracted, but not provided for	—	13,762

15. POST BALANCE SHEET EVENT

On 25 July 2003, the holder of the Convertible Note converted HK\$6 million of the remaining principal amount of the Convertible Note to 30,000,000 ordinary shares of the Company.

After this conversion, all of the Convertible Note outstanding had been converted to ordinary shares of the Company.

16. APPROVAL OF THE INTERIM FINANCIAL REPORT

The interim financial report was approved and authorised for issue by the Board on 18 August 2003.

MANAGEMENT DISCUSSION AND ANALYSIS**Profile**

The Group is principally engaged in the agricultural businesses in the PRC which currently include nurturing, selling and trading of tree seedlings and seeds, and manufacture and sales of aquatics feed products.

Financial results

For the six months ended 30 June 2003, the turnover of the Group amounted to HK\$50,448,000 (2002: HK\$41,594,000), representing an increase of 21% as compared with the corresponding period in 2002. The increase in turnover was attributed to the acquisition of Hebei Basheng Plant Seeds Co. Limited ("Hebei Basheng"), which engaged in nurturing, selling and trading of tree seedlings and seeds in the Northern PRC, at the end of October 2002.

Sales of tree seedlings and seeds of HK\$45,021,000 (2002: Nil) accounted for 89% (2002: Nil) of the total turnover, while sales of aquatics feed products of HK\$5,427,000 (HK\$41,594,000) accounted for the remaining 11% (2002: 100%).

The sales of aquatics feed products declined during the period due to the disposal of part of aquatics feed business late last year.

The Group's gross profit margin for the six months ended 30 June 2003 increased from 8% to 35% as compared to the corresponding period in 2002. The significant improvement in the gross profit margin was attributed to the relatively higher profit margin of tree seedlings and seeds business during the six months ended 30 June 2003.

The Group recorded a net profit from ordinary activities attributable of shareholders of HK\$6,072,000 (2002: HK\$10,545,000) for the six months ended 30 June 2003, representing an decrease of 42% as compared to the corresponding period in 2002. The decrease was due to the fact that no exceptional income was recorded during the period under review.

Business review

Since the acquisition of the 70% interest in Hebei Besheng at the end of October 2002, the Group started to engage in the PRC forestation market. Forestation is one of the major projects supported by the PRC government in the "Tenth Five-Years Plan". Hebei Besheng has been participating in the major areas of the national forestation project of the PRC which aim at the prevention and control of dust storms in areas around Beijing and the transformation of forests from agricultural land.

The acquisition of Hebei Besheng allows the Group to broaden its revenue bases and provides stable cash flows to the Group for future investment opportunities. In fact, Hebei Besheng was well-performed during the period under review. For the six months ended 30 June 2003, it achieved sales of approximately HK\$45 million and recorded net profit of approximately HK\$14 million.

After the completion of the Group restructuring at the end of last year, the Group will look for other investment opportunities which are in line with the Group's core high-tech, large-scale and industrialised agricultural businesses. Currently, the Group is actively negotiating co-operation opportunities with external parties.

Prospects

The Group has adopted the strategy of "Knowledge and Capital Oriented Agriculture" and the Group's prime objective is to diversify into agriculture-related business 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 respect of the tree seedlings and seeds business, the Group will leverage on its relationship with the relevant governmental bodies and its competitive strengths and knowledge in the market to take advantage of the huge business opportunities in the PRC forestation market. The Group is confident in its future performance as the Group is currently well positioned to capture the lucrative business opportunities in the tree seedlings and seeds market.

In addition, 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.

Liquidity, financial resources and capital structure

As at 30 June 2003, the Group's net current assets, total assets and cash and cash equivalents were HK\$167,739,000, HK\$383,777,000 and HK\$85,431,000 respectively. The cash and cash equivalents were mainly denominated in Renminbi. The Group's main recurring source of funds for business expansion and operations was generated from its existing operations.

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.

As at 30 June 2003, the Group's gearing ratio was nil, which is expressed as a percentage of the long-term loan over the shareholders' equity at the balance sheet date. Additionally, the Group's liquidity ratio was 3.12 as at 30 June 2003, reflecting the presence of sufficient financial resources. The calculation of liquidity ratio is based on the current assets of HK\$246,989,000 and the current liabilities of HK\$79,250,000 as at the balance sheet date.