

DIRECTORS' REPORT

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Annual Report 2002/2003

The Directors submit their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 30 June 2003.

PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 36 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results for the year ended 30 June 2003 are set out in the consolidated income statement on page 29.

DIVIDENDS AND OTHER DISTRIBUTION

The Board of Directors has recommended the payment of a final dividend of RMB0.037 per share (approximately equivalent to HK\$0.0349 per share) for the year ended 30 June 2003, together with a Bonus Issue of shares of HK\$0.1 each, on the basis of one share for every twenty shares held by the shareholders registered as such on the register of members of the Company on 19 December 2003 (including those with registered addresses outside Hong Kong) (2002: RMB0.095 per share (approximately equivalent to HK\$0.090 per share)), subject to shareholders' approval at the forthcoming annual general meeting to be held on 19 December 2003, to the shareholders whose names appear on the Register of Members of the Company on 19 December 2003 and payable and distributable on or before 30 January 2004. No interim dividend was declared for the six months ended 31 December 2002 (2001: Nil).

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 31 to the financial statements.

FIXED ASSETS

Details of the movements in the fixed assets of the Group are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 29 to the financial statements.



DISTRIBUTABLE RESERVES

Reserves of the Company at 30 June 2003 available for distribution amounted to RMB1,287,823,000 (2002: RMB1,320,200,000).

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 30 June 2003, the Company purchased and cancelled 4,938,000 shares of HK\$0.1 each in the capital of the Company in November 2002 at prices ranging from RMB1.23 (HK\$1.17) to RMB1.29 (HK\$1.22) per share on the Stock Exchange. Such purchases involved a total cash outlay of approximately RMB6,301,000 (HK\$5,951,000) and were for the purpose of enhancing the Company's return on equity.

Save as disclosed above, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the year ended 30 June 2003.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the current year and the last four financial years are set out on page 75.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Mr. Kwok Ho	
Mr. Ip Chi Ming	
Madam Chiu Na Lai	
Mr. Lee Yan	
Mr. Chan Hong	(Appointed on 1 September 2003)
Ms. Wong Hip Ying	(Appointed on 1 September 2003)
Mr. Fong Jao	(Appointed on 1 September 2003)
Mr. Fung Chi Kin*	(Appointed on 1 September 2003)
Mr. Tam Ching Ho*	(Appointed on 1 September 2003)
Mr. Wong Kong Chi*	(Resigned on 1 September 2003)
Professor Lin Shun Quan*	

* Independent Non-executive Director



DIRECTORS' REPORT

DIRECTORS (Continued)

In accordance with Article 99 of the Company's Articles of Association, Mr. Chan Hong, Ms. Wong Hip Ying, Mr. Fong Jao, Mr. Fung Chi Kin and Mr. Tam Ching Ho will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 116 of the Company's Articles of Association, Professor Lin Shun Quan will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

DIRECTORS' SERVICE AGREEMENTS

Each of the Executive Directors of the Company has entered into a service agreement with the Company. The terms of appointment are as follows:

Mr. Kwok Ho	9 years
Mr. Ip Chi Ming	5 years
Madam Chiu Na Lai	3 years
Mr. Lee Yan	3 years
Mr. Chan Hong	3 years
Ms. Wong Hip Ying	3 years
Mr. Fong Jao	3 years

The service agreements of Mr. Kwok Ho, Mr. Ip Chi Ming, Madam Chiu Na Lai and Mr. Lee Yan and the service agreements of Mr. Chan Hong, Ms. Wong Hip Ying and Mr. Fong Jao are commenced on 1 December 2000 and 1 September 2003 respectively and shall continue thereafter unless and until terminated by either party giving to the other not less than three months' notice in writing.

Professor Lin Shun Quan, being the Independent Non-executive Director of the Company, has entered into a letter of appointment with the Company for continuously appointed for a two-year term expiring on 30 November 2004 unless it is terminated by either party giving the other not less than three months' notice in writing.

Mr. Fung Chi Kin and Mr. Tam Ching Ho were appointed as the Independent Non-executive Directors of the Company for a one-year term commencing on 1 September 2003 unless it is terminated by either party giving the other not less than three months' notice in writing.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service agreement which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.



PROFILES OF DIRECTORS AND SENIOR EXECUTIVES

Profiles of Directors and senior executives of the Group are set out on pages 12 to 15.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2003, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO were as follows:

Long positions in shares of the Company

Name of director	Number of ordinary shares			Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. Kwok Ho	—	—	986,000,000 <i>(Note 1)</i>	986,000,000	51.49%
Madam Chiu Na Lai	—	986,000,000 <i>(Note 1)</i>	—	986,000,000	51.49%
Mr. Ip Chi Ming	—	—	52,000,000 <i>(Note 2)</i>	52,000,000	2.72%

Notes:

1. Held through Kailey Investment Ltd. in which Mr. Kwok Ho has 800 shares and the spouse, Madam Chiu Na Lai, has 100 shares representing 80% and 10% respectively of the total issued share capital of Kailey Investment Ltd.
2. Held through Young West Investments Ltd. which is wholly-owned by Mr. Ip Chi Ming.



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (Continued)

Long positions in underlying shares of the Company

Name of directors	Date of grant	Share Options in the Company		Number of shares in respect of options outstanding as at 30 June 2003
		Exercise price (HK\$)	Exercisable period	
Mr. Kwok Ho (Note)	28/01/2003	1.66	01/07/2003 — 27/01/2013	25,000,000
			01/01/2004 — 27/01/2013	20,000,000
			01/01/2005 — 27/01/2013	20,000,000
Mr. Ip Chi Ming	28/01/2003	1.66	01/07/2003 — 27/01/2013	5,000,000
	24/06/2003	1.14	01/07/2003 — 23/06/2013	2,500,000
Madam Chiu Na Lai (Note)	28/01/2003	1.66	01/07/2003 — 27/01/2013	25,000,000
			01/01/2004 — 27/01/2013	20,000,000
			01/01/2005 — 27/01/2013	20,000,000
Mr. Lee Yan	28/01/2003	1.66	01/07/2003 — 27/01/2013	2,000,000
	24/06/2003	1.14	01/07/2003 — 23/06/2013	1,500,000

Note: Options in respect of 60,000,000 shares were held by Mr. Kwok Ho and options in respect of 5,000,000 shares were held by the spouse, Madam Chiu Na Lai.

Long positions in shares of an associated corporation — Kailey Investment Ltd.

Name of director	Number of ordinary shares			Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. Kwok Ho	800	100	—	900	90%
	(Note)	(Note)			
Madam Chiu Na Lai	100	800	—	900	90%
	(Note)	(Note)			

Note: Mr. Kwok Ho has 800 shares and the spouse, Madam Chiu Na Lai, has 100 shares representing 80% and 10% respectively of the total issued share capital of Kailey Investment Ltd.



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (Continued)

Save as disclosed above, none of the directors, chief executives or their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2003, so far as is known to the Directors, the following corporation (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Kailey Investment Ltd.	Beneficial owner	986,000,000	51.49%

Note: Kailey Investment Ltd. is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 80% by Mr. Kwok Ho and 10% by Madam Chiu Na Lai. Mr. Kwok Ho is entitled to exercise 80% of the voting powers at general meetings of Kailey Investment Ltd.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the headings "Share Option Scheme" below and "Directors' and Chief Executives' Interests in Securities" above, at no time during the year was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or Chief Executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Apart from the information disclosed under the heading "Connected Transactions" below, there was no other contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted at the end of the year or at any time during the year, and in which a Director had, whether directly or indirectly, a material interest, nor there was any other contract of significance in relation to the Company's business between the Company or any of the Company's subsidiaries and a controlling shareholder or any of its subsidiaries.



DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 30 June 2003, none of the Directors of the Company is interested in any business which competes or is likely to compete, either directly or indirectly, with the Company's business.

CONNECTED TRANSACTIONS

Significant related party transactions which also constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), entered into by the Group during the year are disclosed in note 35 to the financial statements. The independent non-executive Directors of the Company had reviewed the connected transactions set out in note 35 for which the Stock Exchange has granted a waiver from the relevant requirements of the Listing Rules and confirmed that:

- (a) the transactions have been entered into by the Group in the ordinary and usual course of business;
- (b) the transactions have been entered into on normal commercial terms or on the terms no less favourable than terms available to or from independent third parties;
- (c) the transactions have been entered into on terms fair and reasonable so far as shareholders of the Company are concerned; and
- (d) the purchase of organic fertilizers, plant growth regulators by the Group from Fujian Chaoda Agriculture Produce Trading Company Limited, which constitute connected transactions and in respect of the waiver granted by the Stock Exchange, the aggregate value of the purchases of organic fertilizers, plant growth regulators from the connected parties do not exceed 55% and 3% of the total purchase and 12% and 0.5% of the total turnover of the Group, being limits subject to which the Stock Exchange has granted the waiver from strict compliance with the provisions governing connected transactions under the Listing Rules.

Note: Mr. Kwok Ho and Madam Chiu Na Lai hold 95% and 5% respectively of the equity interest in Fujian Chaoda Group Limited, a limited company incorporated in the People's Republic of China ("PRC"), which hold, a 60% equity interest in Fujian Chaoda Agriculture Produce Trading Company Limited.



SHARE OPTION SCHEME

A share option scheme (the "Scheme") was adopted pursuant to a resolution passed at the extraordinary general meeting of the Company held on 19 June 2002 for the primary purpose of providing incentives or rewards to selected participants, and will expire on 18 June 2012. Under the Scheme, the Company may grant options to any participant includes any Director (whether executive or non-executive, including any independent non-executive director) or employee (whether full time or part time) of, or any individual for the time being seconded to work for, any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder (a "**Category A Participant**"); or any holder of any securities issued by any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder (a "**Category B Participant**"); or (i) any business or joint venture partner, contractor or agent of; (ii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional services to; (iii) any supplier, producer or licensor of any goods or services to; (iv) any customer, licensee or distributor of any goods or services of; (v) any landlord or tenant of; any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder (a "**Category C Participant**") and, for the purposes of the Scheme, shall include any company controlled by one or more persons belonging to any of the above classes of participants to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme must not exceed 10% of the shares of the Company in issue as at the adoption date. The total number of shares issued and to be issued upon exercise of the options granted to a Participant in any 12-month period must not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of the individual limit must be subject to shareholders' approval.

Options granted must be taken up within 30 days from the offer date, upon payment of HK\$1.00 per offer. Save as determined by the Directors and provided in the offer of the grant of the relevant option, there is no performance target requirement which must be achieved before any of the options can be exercised and there is no general requirement that an option must be held for any minimum period before it can be exercised. The option price is determined by the Board of Directors in its absolute discretion which, in any event, shall be at least the higher of (a) the closing price of the shares on the offer date; (b) the average closing price of the shares for the five business days immediately preceding the offer date; and (c) the nominal amount for the time being of each share.



SHARE OPTION SCHEME (Continued)

As at 30 June 2003, particulars of the options granted to the participants under the Scheme of the Company during the year were as follows:

Name or Category of participant	Number of Shares in respect of Options			Date of grant	Exercisable period	Exercise price per share HK\$	
	Balance as at 1 July 2002	Granted during the year	Outstanding as at 30 June 2003 <i>(Note 1)</i>				
Directors:							
Kwok Ho	—	20,000,000	20,000,000	28/01/2003	01/07/2003 — 27/01/2013	1.66	
			20,000,000		01/01/2004 — 27/01/2013		
			20,000,000		01/01/2005 — 27/01/2013		
Ip Chi Ming	—	5,000,000	5,000,000	28/01/2003	01/07/2003 — 27/01/2013	1.66	
			2,500,000	2,500,000	24/06/2003	01/07/2003 — 23/06/2013	1.14
Chiu Na Lai	—	5,000,000	5,000,000	28/01/2003	01/07/2003 — 27/01/2013	1.66	
Lee Yan	—	2,000,000	2,000,000	28/01/2003	01/07/2003 — 27/01/2013	1.66	
			1,500,000	1,500,000	24/06/2003	01/07/2003 — 23/06/2013	1.14
Employees:							
In aggregate	—	13,500,000	13,500,000	28/01/2003	01/07/2003 — 27/01/2013	1.66	
			44,700,000	44,700,000	19/06/2003	01/07/2003 — 18/06/2013	1.13
			6,000,000	6,000,000		01/07/2004 — 18/06/2013	
Other Participants:							
In aggregate	—	4,000,000	4,000,000	19/06/2003	01/07/2003 — 18/06/2013	1.13	
			1,000,000	1,000,000		01/07/2004 — 18/06/2013	
Total	—	145,200,000	145,200,000				

Notes:

- No Option has been exercised, lapsed or cancelled during the year ended 30 June 2003.
- Since no Option has been exercised during the year ended 30 June 2003, the weighted average closing price immediately before the exercise date (if exercised) is not applicable.
- The closing price immediately before the date of options granted on 28 January 2003, 19 June 2003 and 24 June 2003 were HK\$1.58, HK\$0.91 and HK\$1.19 respectively.



RETIREMENT SCHEME ARRANGEMENT

Particulars of the Group's retirement scheme are set out in note 13 to the financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchase and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchase	
— the largest supplier	33 %
— five largest suppliers combined	46 %
Sales	
— the largest customer	5 %
— five largest customers combined	24 %

Mr. Kwok Ho and Madam Chiu Na Lai hold 95% and 5% respectively of the equity interest in Fujian Chaoda Group Limited, a limited company incorporated in the "PRC", which hold a 60% equity interest in the Group's largest supplier.

None of the Directors of the Company or their respective associates or any shareholder, who to the knowledge of the Directors, own more than 5% of the Company's share capital had an interest in any of the major customers noted above.

DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

During the year ended 30 June 2003, circumstance which will trigger events of default of the Company under the banking facility document as far as the obligation of the controlling shareholder is concerned is as follows:

On 16 January 2002, the Company had entered into a loan agreement (the "Loan Agreement") with, inter alia, a syndicate of banks relating to a loan facility of up to US\$50,000,000 (the "Loan"). Under the Loan Agreement, it would be an event of default if Kailey Investment Ltd., the controlling shareholder of the Company as defined in the Listing Rules, ceases to be the single largest controlling shareholder of the Company. If such an event of default occurs, all amounts outstanding in respect of the Loan would become immediately due and payable by the Company.

On 25 September 2003, the loan was fully repaid by the Company.



AUDIT COMMITTEE

Mr. Fung Chi Kin and Mr. Tam Ching Ho have been appointed as independent non-executive directors of the Company with effect from 1 September 2003; on the same day, Mr. Wong Kong Chi has resigned as independent non-executive director of the Company. Owing to the change of the said independent non-executive directors, the members of the audit committee ("Audit Committee") presently comprise Mr. Fung Chi Kin and Mr. Tam Ching Ho (Chairman).

The Audit Committee has reviewed with the Company's management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements of the Group during the year.

The Audit Committee meets at least twice each year to review the completeness, accuracy and fairness of the Group's financial statements and to consider the nature and scope of external audit reviews. It also assesses the effectiveness of the systems of internal control. Internal control systems have been designed to allow the Board of Directors to monitor the Company's overall financial position and to protect its assets. The purpose is to guard against material financial misstatement or loss. For the meetings of the Audit Committee in the year 2002/2003, the external auditors, the chief financial officer, the financial controller and an executive director in charge of finance matters of the Group attended the meetings to answer questions on the reports or their work.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period for the year ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

SUBSEQUENT EVENTS

There is no significant event subsequent to the balance sheet date as at 30 June 2003.



AUDITORS

PricewaterhouseCoopers, being one of the joint auditors of the Company, resigned on 3 June 2003. Charles Chan, Ip & Fung CPA Ltd., being the remaining joint auditors of the Company, remained in office.

The financial statements for the year were audited by Charles Chan, Ip & Fung CPA Ltd., the auditors of the Company, who will retire, and being eligible, will offer themselves for re-appointment.

On behalf of the Board

Kwok Ho

Chairman

Hong Kong, 21 October 2003

