OVERALL RESULTS

For the year ended 30 June 2003, the Group's consolidated turnover was approximately HK$664,092,000 (2002: HK$349,291,000) and net profit attributable to shareholders was approximately HK$27,149,000 (2002: HK$62,260,000), representing a growth of approximately 90% and a decline of 56% respectively as compared to the last financial year.

During the year ended 30 June 2003, the Group's agricultural resources distribution business achieved a remarkable growth as a result of further expansion of market coverage and strengthening of its market position. Besides, the Group experienced further business diversification by commencing the business of plant protection technical services. Also, the Group commenced the production of BtA, the bio-pesticide acquired in last year, in March 2003. However, the business of manufacturing and selling of plant growth regulators ("PGR"), being the Group's core profit contributor, suffered a considerable decrease in terms of both turnover and operating profit.

As the agricultural resources trading business is a quantity-driven business and the gross profit margin is only approximately 4%, which is relatively much lower than the gross profit margin level of the PGR business of over 70%, and that the turnover of this trading business increased by 220% as compared to that of the last financial year and accounted for approximately 76% (2002: approximately 45%) of the Group's consolidated turnover, the overall gross profit margin of the Group was averaged and decreased to approximately 18% (2002: approximately 43%). Also, as the PGR business suffered a decline during the year ended 30 June 2003; the business of trading of agricultural resources products is yet to contribute a remarkable profit (mainly due to the commencement of amortisation of computer system development costs upon use and the full-year amortisation of goodwill arising from last year's business acquisitions); and the written-off of R&D expenditure for various new product investments amounted to approximately HK$7,727,000 (2002: HK$7,733,000), the overall net profit attributable to shareholders decreased by 56% as compared with last financial year.

A summary of the turnover, gross profit, gross profit margin and segment results by scope of business, say, manufacturing and selling of agricultural resources products (PGRs, BtA and others) and trading of agricultural resources products, is as follows:

	Manufacturing and selling of agricultural resources products		Trading of agricultural resources products		Other operations		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	**155,703**	190,467	**507,905**	158,824	**484**	–	**664,092**	349,291
Gross profit	**102,905**	142,520	**19,095**	8,404	**245**	–	**122,245**	150,924
Gross profit margin	**66%**	75%	**4%**	5%	**51%**	–	**18%**	43%
Segment results	**51,944**	87,661	**(15,377)**	(8,643)	**(7,820)**	(8,131)	**28,747**	70,887

BIO-AGRICULTURAL PRODUCTION BUSINESS

Plant Growth Regulators

The turnover and operating profit derived from PGR business were approximately HK$144,123,000 (2002: HK$190,467,000) and HK$62,059,000 (2002: HK$87,661,000) respectively, representing a decrease of 24% and 29% respectively as compared to the last financial year. The decrease was mainly attributable to (i) the dividing and integration of the circulation channels of agricultural resources products which affected the business of wholesale dealers; (ii) intensified market competitions; (iii) the continued rainy season and drought in some of the sales districts that had affected the application of agricultural resources; (iv) the reduction in price of agriculture produces weakened the keenness of farmers in growing crops; and (v) the structural change in the cultivation of crops, in particular, the change in the number of crops of rice in many provinces from two crops a year to once a year during the financial year under review. As a result of the above, the sales volume of PGRs decreased by 15%. Moreover, as a market strategy, the selling price of PGR was cut by 20% since January 2003, and hence, the gross profit margin of PGR business for the whole financial year, after offsetting the effect of decrease of cost of raw materials, was decreased to approximately 72% (2002: approximately 75%).

In June 2003, the Group launched two new types of PGRs, namely, PGR for tea and PGR for soya beans, after their completion of research and development. During the year ended 30 June 2003, the Group invested approximately HK$5.7 million on nationwide advertising and promotion activities for its PGR business, of which approximately HK$3.8 million was paid during the year. The Group also signed a contract with an agricultural products testing and promotion institute for doing nationwide testing and demonstration works on the Group's PGR for corn which was launched in June 2002, at a consideration of approximately HK$1.1 million which was fully paid during the year.

For the year ended 30 June 2003, the Group's sales volume of PGRs was 1,412 tonnes (2002: 1,655 tonnes), representing a decrease of approximately 15% 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			
	2003		2002	
Types of PGR	**tonnes**	**%**	tonnes	%
PGR for vegetables	**216**	**15%**	271	16%
PGR for fruits	**425**	**30%**	495	30%
PGR for rice	**222**	**16%**	333	20%
PGR for tobacco	**162**	**11%**	192	12%
PGR for flowers	**151**	**11%**	179	11%
PGR for edible fungi	**135**	**10%**	170	10%
PGR for corn	**89**	**6%**	15	1%
PGR for tea and soya beans	**12**	**1%**	–	–
Total	**1,412**	**100%**	1,655	100%

In respect of new PGR products, the Group is cooperating with several different research institutes for the research and development of PGR for cotton, Chinese herbs, high oil-yield corn and corn for fresh consumption. The aggregate contract sums for R&D of these new PGRs is approximately HK$15 million, of which approximately HK$12 million was paid as at 30 June 2003. It is expected that these R&D projects will be completed successively from 2003 to 2005 and be put into commercial production thereafter.

Biological Pesticide (BtA)

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. Commercial production commenced in March 2003 and contributed to a turnover and operation profit (excluding amortisation of acquisition cost of the intellectual property) of approximately HK$4,489,000 and HK$296,000 respectively for the year ended 30 June 2003, based on a sales volume of 73 tonnes. As the operation of production of BtA was temporarily suspended during the SARS period in April and May 2003, the sales was less than expected. The Directors believe that when the production and sales come back to normal, the BtA operation will generate satisfactory contribution to the Group.

Investments in Other Hi-tech Agricultural Resources Products

1. In July 2002, the Group entered into an agreement with the Resources and Environmental School of the Fujian Agricultural and Forestry University (the "Environmental School") for conducting research work on the conjugation of the Group's PGR with the amino-acidic liquid fertiliser acquired from the Environmental School in the last year, at a consideration of approximately HK$2.8 million of which approximately HK$2.3 million was paid during the year. The R&D work is expected to be completed at the end of 2003, upon which the Group will look for suitable and competent manufacturer for commercial production.

2. In December 2002, the Group entered into an agreement with the Meloidogyne Research Laboratory of the Plant Protection School of the Fujian Agricultural and Forestry University for the R&D of a pesticide specifically for killing Meloidogyne which is a severe plant disease affecting agricultural production, at a consideration of approximately HK$3.8 million of which approximately HK$1.9 million was paid during the year. The R&D work is expected to be completed at the end of 2004, upon which the Group will look for suitable and competent manufacturer for commercial production.

3. In February 2003, the Group entered into an agreement with the Soil and Fertiliser Research Centre of the Fujian Agricultural School for the acquisition of the intellectual property rights in relation to the production of three types of compound fertilisers specifically for tea, bamboo shoot and cone-shaped chestnut respectively, at an aggregate consideration of approximately HK$7.5 million which was fully paid during the year. Upon the selection of suitable manufacturer, the products will be put into commercial production.

On the other hand, in the last year, the Group acquired the intellectual property rights in relation to the production of an amino-acidic liquid fertiliser at a consideration of approximately HK$7.2 million. However, as the Group is yet to choose a competent manufacturer for commercial production, for the sake of prudence, a provision of approximately HK$3.6 million for impairment in value of the intangible asset was made during the year.

Leasing of Production Bases in Hunan Province

In order to increase the pace of expansion of the Group's market share in Hunan province, after conducting detailed and in-depth market researches, the Group leased from two large agricultural resources manufacturers their production bases in Hunan province in April 2003, for an initial period of two years. The annual rental of the two production bases is approximately HK$1.7 million and HK$147,000 respectively. A rental deposit of approximately HK$7.5 million and HK$2.8 million respectively was paid to the two manufacturers. Under the leasing agreements, apart from the rights to use all of the production facilities, the Group has rights to produce, sell and utilise the intellectual property rights of all existing agricultural resources products of the production bases; as well as the brand names and sales network of the products.

The Group believes that such arrangements not only provide opportunities for product diversification and profit contribution, but also improve the Group's market position and penetration in the huge agricultural resources market of Hunan province.

AGRICULTURAL RESOURCES TRADING BUSINESS

During the year under review, the Group's agricultural resources trading business further expanded and penetrated, especially in the provinces of Jiangsu and Fujian. The Group also commenced its trading business in Hainan Province. Currently, the Group's agricultural resources trading business covered six provinces, namely, Fujian, Shanxi, Jiangxi, Hunan, Jiangsu and Hainan.

During the year, the Group further acquired the agricultural resources trading business from three local famous agricultural resources enterprises and organizations, which were located in different regions, namely, Sanming City, Nanping City, and Anxi County of Fujian province, at considerations of Rmb10 million, Rmb6 million and Rmb4 million respectively. These three agricultural enterprises or organizations not only possess mature and large customer networks in the business of trading of agricultural resources, but also have experienced staff in the area of plant protection and hi-tech agricultural resources product development, as well as a well grasp of market information in the regions where they are located. Therefore, similar to previous year's acquisitions, the Group entered into separate joint venture agreements with the acquirees. Under such agreements, after the Group had acquired the original agricultural resources trading business (say, those intangible assets including brand name, sales network, business goodwill, customer information etc.) at an agreed consideration, such original business was injected into a joint venture company formed between the Group and the acquirees. In respect of the current year's acquisitions in Sanming City, Nanping City and Anxi County, the joint ventures set up were 70%, 90% and 90% owned by the Group, respectively.

Together with the eight separate joint venture agreements that the Group has entered into in the last financial year, the total cost of acquisition of the agricultural resources trading businesses aggregated to approximately HK$49.5 million, of which approximately HK$13.7 million and HK$27.8 million were paid during the year ended 30 June 2002 and 30 June 2003 respectively, while the remaining balance will be paid in 2004.

For the year ended 30 June 2003, turnover from the trading business amounted to approximately HK$507,905,000 (2002: HK$158,824,000), representing a remarkable increase of approximately 220% from the last financial year and contributed to 76% (2002: 45%) of the consolidated turnover of the Group, demonstrating the rapid growth and expansion of the trading business and its role as an important contribution to the Group; as well as the efforts of the Group's management.

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$5.7 million on nationwide advertising and promotion activities and market researches, of which approximately HK$2.8 million was paid during the year.

In the last year, 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 for doing testing and demonstration works on agricultural resources products such as fertilisers 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 aggregate contract sums for the testing and demonstration works amounted to approximately HK$12 million, of which approximately HK$6 million was expensed during the year.

In the last year, the Group also invested approximately HK$43 million in the development of a sophisticated computer system for inventory and cash flow management, centralised accounting, real-time data analysis for management decision-making, on-line trading, customer relations management, supply-chain management and etc. The investment decision is in line with the Group's business plan of developing a nationwide distribution network of agricultural resources products in Mainland China. Therefore, such a hi-tech computer system is required to handle the plenty of market data and information for internal resources management and top management decision-making purposes.

The development of the computer system was substantially completed at end of 2002, except for the setting up of terminal computer hardwares and softwares at the distribution points (warehouses and retail outlets) located in different regions of Mainland China. It is required to arrange training for the responsible staff in the demo operation of the computer system before it is finally put into use in the specified distribution points. As at 30 June 2003, the computer system was partially put into use in the way that the computer system's terminal user ends were connected in a few subsidiaries in Fujian, Jiangsu and Jiangxi provinces by the setting up of computer hardwares and installing softwares. The Group will continue the setting up of terminals at other distribution points and arrange training for the responsible staff progressively, upon the existing partial operation of computer system being proved to be stable and smooth.

On the other hand, the management would like to mention that it is a normal practice for the agricultural resources trading business in Mainland China to make prepayments to manufacturers, especially during the winter season, in order to secure product supplies during the planting time (normally in spring) in view of the limited production capacities of manufacturers of popular brands of fertilisers and pesticides and to obtain bulk purchase discounts. The amount of prepayment normally ranges from 50% to 80% of the purchase amount, depending on the type, brand and availability of the fertiliser or pesticide. Therefore, the deposits for purchase of inventories increase as the trading business expands and this explained for the high level of the balance of "Deposits for purchase of inventories" as at 30 June 2003.

The trading business was quantity-driven with a relatively low gross profit margin of approximately 4%, 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. As a result of the successful management of trading business in the financial year under review, the business recorded a remarkable turnover of approximately HK$507,905,000 and achieved a mitigation of operating loss (excluding amortisation of goodwill arising from business acquisitions and computer system development costs) to approximately HK$2,369,000 (2002: operating loss of approximately HK$7,039,000, excluding amortisation of goodwill arising from business acquisitions).

In the years to come, the Group believes the trading business in the six 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.

PLANT PROTECTION TECHNICAL SERVICES

Following China's accession into the WTO, exports of agricultural products in Mainland China are coming up with more room for development, and in the meantime coming up with the technical barrier of more stringent residual pesticide inspections. Food safety has also become the focus of worldwide concern, and accordingly, market demand for the provision of professional and comprehensive plant protection technical services during the planting and production of agriculture produces and the ensuring of safety agricultural resources are stronger, thus providing plenty of opportunities for such business.

The Group started to provide comprehensive plant protection technical services to some agriculture produce exporters and large farmlands in 2003 and recorded a service income of approximately HK$484,000 for the year ended 30 June 2003. Such business is expected to generate synergetic effect with the Group's nationwide agricultural resources trading business.

In order to provide high value-added services and one-stop agriculture solution to agricultural producers, the Group invested approximately HK$7.5 million on the development of a distant diagnose system for plant diseases and pests of agriculture produces by the Plant Protection School of Fujian Agricultural and Forestry University, of which approximately HK$3.8 million was paid during the year. The essence of the system is the setting-up of a farmland Geographical Information System ("GIS") which is a database using modern computer graphical and database techniques for data input, storage, editing, analyzing and display dimensional information in terms of graphics and numerical data. The GIS together with a remote sensing system and a global positioning system is able to collect information and data from agriculture produces using the technique of electromagnetic wave transmission. The development of the distant diagnose system is expected to be completed at the end of 2004.

SUBSEQUENT EVENT

In August 2003, the Group entered into an agreement with two independent fertiliser manufacturers for the acquisition of their production facilities, factory premises and land use rights, and for obtaining the right to use their trademark for five years, at a consideration of approximately HK$14,858,000.

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 2003, the cash and bank balances and restricted bank deposits of HK$55,936,000 included HK$159,000 which was denominated in Hong Kong dollars and HK$55,777,000 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

As at 30 June 2003, the Group had no borrowings, the amounts due to a director (non interest-bearing) and due to minority shareholders of subsidiaries (interest bearing at rates ranging from approximately 5% to 8% per annum) were HK$1,300,000 and HK$12,738,000 respectively. As at 30 June 2003, the Group had bills payable of HK$79,604,000 which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of HK$27,850,000 which was also denominated in Renminbi.

As at 30 June 2003, the Group maintained a low gearing ratio of 5.3%. This is based on the division of amounts due to a director and due to minority shareholders of subsidiaries by shareholders' equity as at 30 June 2003.

Commitments

As at 30 June 2003, the Group had outstanding contracted capital and other commitments of approximately HK$13,803,000 in respect of product R&D costs, development cost for a distant diagnose system for plant diseases and pests of agriculture produces, as well as advertising and promotion expenses. As at 30 June 2003, the Group had operating lease commitments of approximately HK$5,677,000.

Contingent liabilities

As at 30 June 2003, the Group had no material contingent liabilities.

Remuneration Policies and Share Option Scheme

The Group incurred total salaries and other remunerations of approximately HK$10,376,000 with a total number of about 500 staff during the year ended 30 June 2003.

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 2003.