

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.

Business review

The Group continued to focus on the PRC reforestation market through its 70% equity interest in Hebei Bashang Plant Seeds Co. Limited ("Hebei Bashang"). Hebei Bashang has been participating in the major areas of the national reforestation project of the PRC which aims at the prevention and control of dust storms in areas around Beijing and the transformation of forests from agricultural land. Benefited from the policy of the Government to promote agricultural development and to encourage national afforestation projects, and coupled with the synergic relationship established between the Group and relevant government authorities and the competitive strength and know-how, Hebei Bashang had made a remarkable contribution to the Group. For the period ended 30 June 2004, Hebei Bashang recorded a turnover of HK\$45,969,000 (HK\$45,021,000) and had made profit contribution of HK\$11,043,000 (2003: HK\$14,306,000) to the Group.

Under the unfavourable economic environment and limited development opportunities of the aquatics feeds product business and in view of the believes that resources should be put on the development in its core high-tech, large scale and industrialised agricultural businesses, the Group discontinued the operations of its business in the manufacturing and selling of shrimp feed products in 2003 and disposed of its entire interest in Qionghai Juhua Feed Co., Ltd. ("Qionghai Juhua") in June 2004.

Financial review

For the six months ended 30 June 2004, the turnover of the Group amounted to HK\$45,969,000 (2003: HK\$50,448,000), representing an decrease of 9% as compared with the corresponding period in 2003. The decrease in turnover was attributed to the discontinuance of the operations of the shrimp feed business in the second half of the year 2003. The turnover of the Group for the period was derived from the tree seedlings and seeds business.

The Group sustained a stable gross profit margin for the six months ended 30 June 2004 at 33% (2003: 35%).

The Group recorded a net profit attributable to shareholders of HK\$10,343,000 (2003: HK\$6,072,000) for the six months ended 30 June 2004, representing an increase of 70% over the corresponding period in 2003. The significant increase was a proven success of the business re-organisation in 2003 through the streamlining of profit-making business, discontinuance of under-performing business operations and the implementation of stringent cost control.

Liquidity, financial resources and capital structure

As at 30 June 2004, the Group's net current assets, total assets and cash and bank balances were HK\$219,874,000, HK\$362,067,000 and HK\$169,419,000 respectively.

The cash and bank balances of the Group were mainly denominated in Renminbi. The Group is permitted to exchange Renminbi for foreign currencies through the authorisation of the banks to conduct foreign exchange business under the relevant regulations and rules in the PRC. The Group had deposited the money in banks in the PRC and licensed banks in Hong Kong. The Group financed its operations primarily through its internal generated funds and the net proceeds from the new issue of shares of the Company.

During the period, the Group took advantage of its listing status to raise capital by entering into 8 subscription agreements under which 325,400,000 ordinary shares of the Company were issued at HK\$0.07 per share. The net proceeds received by the Company under such placement was approximately HK\$22,778,000, which will be used as general working capital of the Group for its day-to-day operations.

The Group conducted its business transactions principally in Hong Kong dollars and Renminbi. The Group had not experienced any material difficulties or negative effects on its operations as a result of fluctuations in currency exchanges rates. The directors believe it was not necessary to hedge the exchange risk. Nevertheless, the management will continue to monitor the foreign exchange exposure and will take prudent measure as deemed appropriate.

As at 30 June 2004, since the Group has no long-term borrowing, its financial position stays healthy with zero gearing, which is expressed as a percentage of the long-term liabilities, over the shareholders' equity at the balance sheet date. Additionally, the Group's liquidity ratio was 9.0 as at 30 June 2004 (31 December 2003: 4.09), reflecting the presence of sufficient financial resources. The calculation of liquidity ratio is based on current assets and the current liabilities as at the balance sheet date.

As at 30 June 2004, the Group had not pledged any asset to its bankers to secure banking facilities granted to the Group.

Prospects

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 order to realise the sustainable business development, the Group intends to introduce some multi-national institutional investors and resourceful property investors as strategic business partners in the years ahead, aiming to become one of the leading high-tech agricultural corporate groups in the PRC.

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.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2004, the total number of employees of the Group was 22 (30 June 2003: 85 employees). Decrease in number of employees were mainly due to the streamlining of operations since 2003. 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 fulltime 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.

SIGNIFICANT INVESTMENT AND ACQUISITION

In view of the underperformance of Qionghai Juhua, the Group discontinued the operations of the shrimp feeds business. This is in line with the Group's strategy to concentrate on its profitable business. In June 2004, the Group disposed of its entire interest in Qionghai Juhua at a consideration of HK\$1 million.

Since Qionghai Juhua did not carry out any business since its scale down of business in 2003 and until the disposal of Qionghai Juhua by the Group, the directors considered that the financial results of Qionghai Juhua for period from 1 January 2004 to the date of disposal did not have any material impact on the Group. Accordingly, to avoid involving expense and delay out of proportion to the value to the members of the Company, no consolidation of the results and cash flows of Qionghai Juhua was undertaken for the period from 1 January 2004 and up to the date of disposal. A gain on disposal of Qionghai Juhua of approximately HK\$1 million was recorded accordingly.

Other than as disclosed above, the Group did not have any significant acquisition and disposal of investments.

OPERATING LEASE ARRANGEMENTS

The Group leases its office premises under an operating lease arrangement. At 30 June 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due within one year and within two to five years amounting to HK\$385,000 (31 December 2003: HK\$177,000) and HK\$320,000 (31 December 2003: Nil) respectively.

CONTINGENT LIABILITIES

As at 30 June 2004, the Group is not aware of any major contingent liabilities that will cause substantial change to the Group's operations.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2004, the directors, chief executive of the Company and their associates have the following interests or short positions in shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance (the "SFO") or notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"):

Long positions in ordinary shares of the Company:

Name of directors	Nature and capacity of interest	Number of shares held	Percentage of the issued share capital of the Company
Hon Fong Ming, Perry	Through controlled corporations (Note (i))	530,530,000	24.88%
Shing Fong	Directly and beneficially owned (Note (ii))	26,012,000	1.22%

Notes:

- (i) The interest disclosed represents the corporate interest of Dr. Hon Fong Ming, Perry in 530,530,000 ordinary shares in the Company held by Dragon Delta Limited, which is wholly and beneficially owned by Dr. Hon Fong Ming, Perry through Dragoncom Group Limited (formerly known as Dragoncom China Investment Limited) and Dragoncom (Hong Kong) Limited.
- (ii) Ms. Shing Fong held 26,012,000 ordinary shares in the Company in which 1,620,000 ordinary shares were jointly held by Ms. Shing Fong and Wu Guang Ning.

Long positions in underlying shares of the Company:

Name of directors	Date of grant of share options	Exercise period	Exercise price per share HK\$	Number of	Number of
				share options outstanding as at 01.01.2004	share options outstanding as at 30.06.2004
Hon Fong Ming, Perry	26 June 2002	26 June 2002 – 20 June 2012	0.1312	900,000	900,000
	30 July 2002	30 July 2002 – 20 June 2012	0.2360	8,000,000	8,000,000
Qian Keming	26 June 2002	26 June 2002 – 20 June 2012	0.1312	864,000	864,000
Zhang Jiebin	26 June 2002	26 June 2002 – 20 June 2012	0.1312	900,000	900,000
Ke Yinbin	26 June 2002	26 June 2002 – 20 June 2012	0.1312	900,000	900,000
Yu Enguang	26 June 2002	26 June 2002 – 20 June 2012	0.1312	864,000	864,000
Ma Qingguo	26 June 2002	26 June 2002 – 20 June 2012	0.1312	864,000	864,000

Save as disclosed herein, as at 30 June 2004, none of the directors, chief executive of the Company or their associates held any interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning under Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.