OVERALL RESULTS

For the year ended 30 June 2004, the Group's consolidated turnover was approximately HK$822,027,000 (2003: HK$664,092,000) and net profit attributable to shareholders was approximately HK$14,882,000 (2003: HK$27,149,000), representing a growth of approximately 24% and a decline of 45% respectively as compared to the last financial year.

During the year ended 30 June 2004, the Group's agricultural resources distribution business achieved further growth as a result of further expansion of market coverage and strengthening of its market position. Besides, the business of plant protection technical services, which commenced in the last year, achieved remarkable growth during the year. Also, the Group commenced mass production of BtA (a bio-pesticide) during the year. However, in order to impose better control on the effect of pesticides to the environment in the PRC, the Ministry of Agriculture has started to limit and prohibit the use of pesticides of higher toxicity and producing more residual. Hence, pesticides with new ingredients and new formula have to pass an environmental test before launching in the market. As the plant growth regulator ("PGR") and BtA produced by the Group fall into the categories of pesticides that are subjected to environmental test, the production of these products has been suspended since January 2004, which substantially dragged down the turnover and operating profit contributed by these two products. It is expected that the tests on PGR and BtA will be completed and the products be re-launched in the market by the end of 2004.

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 the average gross profit margin level of the manufacturing business of 37%, and that the turnover of the trading business increased by 24% as compared to that of the last financial year and accounted for approximately 77% (2003: approximately 76%) of the Group's consolidated turnover, the overall gross profit margin of the Group was averaged and decreased to approximately 12% (2003: approximately 18%). Also, as the PGR business suffered a significant decline during the year ended 30 June 2004; the business of trading of agricultural resources products is yet to contribute a remarkable profit (mainly due to the full-year amortisation of computer system development costs upon use since the last year and the amortisation of goodwill arising from previous years' business acquisitions); and the written-off of R&D expenditure for certain new product investments amounted to approximately HK$801,000 (2003: HK$7,727,000), the overall net profit attributable to shareholders decreased by 45% as compared with the 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, pesticides and fertilisers), trading of agricultural resources products, and provision of plant protection technical services, is as follows:

	Manufacturing and selling of agricultural resources products		Trading of agricultural resources products		Provision of plant protection technical services		Other operation		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	**187,846**	155,703	**631,537**	507,905	**2,644**	484	**–**	–	**822,027**	664,092
Gross profit	**69,544**	102,905	**26,197**	19,095	**1,531**	245	**–**	–	**97,272**	122,245
Gross profit margin	**37%**	66%	**4%**	4%	**58%**	51%	**–**	–	**12%**	18%
Segment results	**41,059**	51,944	**(19,323)**	(15,377)	**1,225**	(1,510)	**(4,740)**	(6,310)	**18,221**	28,747

AGRICULTURAL RESOURCES TRADING BUSINESS

During the year under review, the Group's agricultural resources trading business further expanded and penetrated into its existing markets. Currently, the Group's agricultural resources trading business covered six provinces, namely, Fujian, Shanxi, Jiangxi, Hunan, Jiangsu and Hainan. In view of our expanding ever-increasing inter-provincial business, the Group strengthened its management through its self-developed supply-chain management system, centralized finance system and cash flow management platform to provide real-time production, sales, inventory and cash flow data. Based on this solid foundation, the Group further expanded its business to Shandong province and Shanghai.

During the year, the Group acquired the agricultural resources trading business from two local famous agricultural resources enterprises, which were located in Jinan City of Shandong province and Shanghai City, at considerations of RMB5 million and RMB7 million respectively. Similar to previous years' 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 Jinan City and Shanghai City, both joint ventures set up were 70% owned by the Group. It is expected that the joint ventures will bring contribution to the Group in the next financial year.

For the year ended 30 June 2004, turnover from the trading business amounted to approximately HK$631,537,000 (2003: HK$507,905,000), representing an increase of approximately 24% from the last financial year and contributed to approximately 77% (2003: 76%) of the consolidated turnover of the Group, demonstrating the continued growth and expansion of the trading business and its role as an important contribution to the Group.

In order to continue the promotion of the cross-province agricultural resources distribution and retail business and the enhancement of the reputation and brand name of the Group, the Group invested approximately HK$4.7 million on nationwide advertising and promotion activities and market researches, which was fully paid during the year.

In respect of the sophisticated computer system developed 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., it was partially put into use in certain distribution points in the last year. However, after using the computer system for a period of time, certain operations of the system were found to be not efficient enough. Therefore the system was undergoing a stage of refinement and enhancement. Upon completion of the second stage of development, it is expected that the computer system will be running more efficiently and be widely applied in other distribution points.

The trading business is 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. Also, due to the price inflation of raw materials and the government control on the inflation of market price of agricultural resources during the year, the gross profit margin on trading was affected. Nevertheless, as a result of the continued expansion of the trading business in the financial year under review, the business recorded a remarkable turnover of approximately HK$631,537,000 and achieved a mitigation of operating loss (excluding amortisation of goodwill arising from business acquisitions and computer system development costs) to approximately HK$824,000 (2003: operating loss of approximately HK$2,369,000, excluding amortisation of goodwill arising from business acquisitions and computer system development costs).

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

AGRICULTURAL RESOURCES PRODUCTION BUSINESS

The Group's agricultural resources production business continues to grow in the back of the expansion of its agricultural resources trading business and the establishment of its circulation platform.

In respect of pesticides production, apart from the products (namely PGR and BtA) which are subjected to the tests required under the PRC's agricultural policy, the Group is actively developing up-stream products by leasing the production bases of two large scale pesticide factories in Hunan province as well as distributing their products on an exclusive basis. The Group also acquired 28 newly developed pesticides, germicide and miticide from various agricultural research centers and agricultural universities. These new products are expected to be launched in the coming year.

In the fertilisers production front, the Group has already commenced the production of the three specialized compound fertilisers acquired in the last year. It has also acquired a phosphorous fertiliser production plant in Hubei province. Since the market share of chemical fertilisers is much higher than that of pesticides in the PRC, the Group's attempts in penetrating the chemical fertilisers market will build a platform for further growth in the future.

Details of the Group's various manufacturing businesses is as follows:

Plant Growth Regulators

The turnover and operating profit derived from PGR business were approximately HK$96,526,000 (2003: HK$144,123,000) and HK$48,848,000 (2003: HK$62,059,000) respectively, representing a decrease of 33% and 21% respectively as compared to the last financial year. The decrease was mainly due to the suspension of production since January 2004 in order to comply with the new government policy of product testing for environmental purpose. As a result, the sales volume of PGRs decreased by 27% (2004: 1,024 tonnes, 2003: 1,412 tonnes). Moreover, as a market strategy to increase the product's competitiveness, 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 cost control, was slightly decreased to approximately 71% (2003: approximately 72%).

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, which was fully paid as at 30 June 2004. It is expected that these R&D projects will be completed successively from 2004 to 2005 and be put into commercial production thereafter.

Biological Pesticide (BtA)

Commercial production of BtA commenced in March 2003 and contributed to a turnover and operation profit (excluding amortisation of acquisition cost of the intellectual property) of approximately HK$27,605,000 (2003: HK$4,489,000) and HK$5,763,000 (2003: HK$296,000) respectively for the year ended 30 June 2004, based on a sales volume of 451 tonnes (2003: 73 tonnes). However, as the production of BtA was suspended since January 2004 for environmental testing purpose, the business of BtA only contributed revenue to the Group for the first half of the financial year. The Directors believe that when the production and sales resumes, the BtA operation will generate satisfactory contribution to the Group.

Investments in Other Hi-tech Agricultural Resources Products

In the last year, the Group entered into agreements with the Fujian Agricultural and Forestry University for conducting R&D on the conjugation of the Group's PGR with an amino-acidic liquid fertiliser; as well as a pesticide specifically for killing Meloidogyne (a severe plant disease affecting agricultural production) at considerations of approximately HK$2.8 million and HK$3.8 million respectively. The R&D works were substantially completed and full payments were made. Upon the completion of product testing by the relevant government authorities and the granting of production certificates, the Group will look for suitable and competent manufacturer for commercial production.

The Group also acquired 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 in the last year and commercial production was commenced during the year.

On the other hand, in 2002, 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 had been made in the last year.

During the year, the Group entered into three separate agreements with the Plant Protection Institute of Fujian Academy of Agricultural Sciences, the College of Science of China Agricultural University and the College of Plant Protection of Henan Agricultural University for the acquisition of a total of 28 species of newly developed pesticides, germicide and miticide from them at a consideration of approximately HK$6.8 million, HK$6.8 million and HK$5.3 million respectively, totaling HK$18.9 million of which approximately HK$13.2 million was paid prior to at 30 June 2004. These products are expected to launch in the market in the coming year.

Production Bases in Hunan Province

In order to increase the pace of expansion of the Group's market share in Hunan province, the Group obtained the exclusive rights of sale and distribution of the products from two large agricultural resources manufacturers. The Group paid a deposit of approximately HK$7.5 million to each of the manufacturers in respect of the exclusive rights of sale and distribution. For the year ended 30 June 2004, the two production bases generated a total revenue of approximately HK$113 million to the Group.

The Group believes that such arrangements will improve the Group's market position and penetration in the huge agricultural resources market of Hunan province.

Production Base in Hubei Province

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 sale of chemical fertilisers for five years, at a consideration of approximately HK$14,858,000. Upon the handover of the production base, it commenced production in December 2003 and generated a revenue of approximately HK$5 million to the Group for the year ended 30 June 2004. The Group expects that when the production is gradually put on track and the sales channel is better grasped, the production base will generate satisfactory contribution to the Group and strengthen the Group's market position in Hubei province.

PLANT PROTECTION TECHNICAL SERVICES

The Group started to provide comprehensive plant protection technical services to some agriculture produce exporters and large farmlands since the last year and recorded a service income of approximately HK$2,644,000 for the year ended 30 June 2004 (2003: HK$484,000). 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 in the last year. Full payment for the system was made as at 30 June 2004. The development of the distant diagnose system was substantially completed and tried to be applied in certain direct sales outlets of the Group and the result was satisfactory.

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 2004, the cash and bank balances and restricted bank deposits of HK$111,958,000 included HK$27,930,000 which was denominated in Hong Kong dollars and HK$84,028,000 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 2004, the Group had bank borrowings of approximately HK$47,794,000 (denominated in Renminbi), which beared interest at rates ranging from approximately 4.5% to 7.5% per annum, of which approximately HK$15,743,000, HK$1,885,000 and HK$30,166,000 were secured by bank deposit of HK$17 million, certain machinery of the Group, and corporate guarantee of a subsidiary, respectively. As at 30 June 2004, the Group had bills payable of HK$156,000,000 which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of HK$48,818,000 which was also denominated in Renminbi.

As at 30 June 2004, the Group maintained a gearing ratio of 15%. This is based on the division of bank borrowings by shareholders' equity as at 30 June 2004. The Directors considered that the gearing ratio as at 30 June 2004 was healthy, taking into account of the scale of operations of the Group.

Commitments

As at 30 June 2004, the Group had outstanding contracted capital and other commitments of approximately HK$8 million in respect of the cost of acquisition of product technical know-hows, and advertising and promotion expenses. As at 30 June 2004, the Group had operating lease commitments of approximately HK$1,454,000.

Contingent liabilities

As at 30 June 2004, the Group had no material contingent liabilities.

Remuneration Policies and Share Option Scheme

The Group incurred total salaries and other remunerations of approximately HK$10,414,000 with an average number of about 600 staff during the year ended 30 June 2004.

Remuneration packages comprised salary, mandatory provident fund and year-end bonus based on individual merits. A share option scheme (the "Scheme") was adopted by the Company pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31 December 2001. During the year ended 30 June 2004, options in respect of 30,000,000 shares were granted to the relevant participants under the Scheme.