



# Management Discussion and Analysis

## Overall Results

For the year ended 30 June 2006, the Group's consolidated turnover was approximately HK\$2,286,255,000 (2005: HK\$1,640,708,000) and net profit attributable to equity holders of the Company was approximately HK\$61,627,000 (2005: HK\$21,511,000), representing a growth of approximately 39% and 186% respectively as compared to those of the last financial year.

During the year ended 30 June 2006, the Group's agricultural resources distribution business achieved remarkable growth as a result of further expansion of market coverage and strengthening of its market position in Jiangsu, Hunan and Shangdong provinces. Besides, the business of plant protection technical services maintained a rapid growth during the year. Moreover, the turnover from manufacturing operation achieved a 116% growth as a result of increase in sale of compound fertiliser products previously developed and the commencement of operation of a new factory in Jiangxi for producing fertilisers.

As the turnover from agricultural resources trading business further boost up while the gross profit margin is only approximately 4.5%, which is relatively much lower than the average gross profit margin level of the manufacturing business of 32%, and that the turnover of the trading business increased by approximately 35% as compared to that of the last financial year and accounted for approximately 69% (2005: approximately 72%) of the Group's consolidated turnover, together with the contribution of trading of non-agricultural resources products during the year with a turnover of approximately HK\$478,035,000 and gross profit margin of only 3%, the overall gross profit margin of the Group was averaged to approximately 7% (2005: approximately 7%). Nevertheless, the overall net profit attributable to equity holders of the Company increased by 186% as compared with that of the last financial year, which is contributed by the satisfactory improvement of various business sectors of the Group in the current year.

A summary of the turnover, gross profit, gross profit margin and segment results by scope of business, say, trading of agricultural resources products ("trading operation"), manufacturing and selling of agricultural resources products (PGRs, pesticides and fertilisers) ("manufacturing operation"), provision of plant protection technical services ("consultancy operation"), and trading of non-agricultural resources products ("non-agricultural resources trading operation") is as follows:

	Trading operation		Manufacturing operation		Consultancy operation		Non-agricultural resources trading operation		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	1,585,803	1,177,315	204,649	94,587	17,768	13,139	478,035	355,667	2,286,255	1,640,708
Gross profit	70,669	59,927	65,997	40,634	13,607	11,176	13,850	3,791	164,123	115,528
Gross profit margin	4.5%	5%	32%	43%	77%	85%	3%	1%	7%	7%
Segment results	17,533	4,644	41,584	20,363	14,118	5,747	6,239	1,334	79,474	32,088



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## **Agricultural Resources Trading Business**

During the year under review, the Group's agricultural resources trading business further expanded and penetrated into its existing markets and reached other new markets. Currently, the Group's agricultural resources trading business covered eight provinces, namely, Fujian, Shanxi, Jiangxi, Hunan, Jiangsu, Hainan, Hubei and Shandong, as well as Shanghai city.

During the year, the Group acquired several agricultural resources trading business from local famous agricultural resources enterprises, mainly in Jiangsu, Hunan and Shandong provinces, so as to further strengthen its market position and coverage.

Moreover, the Group's joint venture entity, which was formed with a provincial level large agricultural resources enterprise in Hunan province achieved a remarkable growth during the year ended 30 June 2006. The joint venture entity contributed a turnover and operating profit of approximately HK\$189 million (2005: HK\$85 million) and HK\$4 million (2005: HK\$4 million) respectively to the Group.

For the year ended 30 June 2006, turnover from the trading business amounted to approximately HK\$1,585,803,000 (2005: HK\$1,177,315,000), representing an increase of approximately 35% from the last financial year and contributed to approximately 69% (2005: 72%) of the consolidated turnover of the Group, demonstrating the continued rapid growth and expansion of the trading business and its role as a core business to the Group.

The trading business is quantity-driven with a relatively low gross profit margin of approximately 4.5% and therefore, requires a considerable high turnover level in order to generate adequate gross profit to cover promotion and advertising expenses and amortisation of development cost of computer system which comprises supply chain management system, cash flow management system and financial information system. Nevertheless, as a result of the continued expansion of the trading business in the financial year under review and the consequent realisation of the effect of economy of scale, the business recorded a remarkable turnover of approximately HK\$1,585,803,000 and achieved an operating profit of approximately HK\$17,533,000 (2005: HK\$4,644,000), an increase of approximately 35% and 278% respectively.

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 further contribute to a remarkable profit for the Group in the years to come.



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## Agricultural Resources Production Business

In the fertilisers production front, the phosphorous fertiliser production plant in Hubei province contributed a turnover of approximately HK\$22.6 million (2005: HK\$17.1 million) during the year. The Group's compound fertiliser production base which was acquired in the last year and located in Fujian province also contributed a turnover and operating profit of approximately HK\$57.6 million (2005: HK\$13.4 million) and HK\$13.8 million (2005: HK\$2.5 million) respectively to the Group during the year. The Group also established a compound fertiliser manufacturing base in Jiangxi in the last year, which contributed a turnover and operating profit of approximately 53.9 million and 1.3 million respectively to the Group during the year. The fertilisers manufacturing business is expected to further improve in the back of the Group's circulation platform.

In respect of pesticides production, apart from the PGR and BtA which contributed a turnover of approximately HK\$53.5 million and HK\$21.8 million during the year, the Group commenced, since March 2005, the production and launch of a majority of the 28 newly developed pesticides, germicide and miticide acquired in the prior year, which contributed a turnover and operating profit (excluding amortisation of acquisition cost of the intellectual property) of approximately HK\$14.1 million and HK\$3.2 million respectively to the Group for the year. It is expected that the sales of these new pesticides will be further improved in the coming years.

For PGR, the turnover and operating profit were approximately HK\$53.5 million (2005: HK\$52.9 million) and HK\$31.8 million (2005: HK\$24.6 million) respectively, representing an increase of approximately 1% and 29% respectively as compared to the last financial year. The increase was mainly due to the change of production and sales strategies for different types of PGR, which proved to be effective, though with an overall decrease in production scale.

For the biological pesticide (BtA), it contributed to a turnover and operation profit (excluding amortisation of acquisition cost of the intellectual property) of approximately HK\$21.8 million (2005: HK\$10.5 million) and HK\$4.3 million (2005: HK\$1.3 million) respectively for the year ended 30 June 2006, such increase in result is due to the same reason as that for PGR.

It is expected that the PGR and BtA sales will be steadily improved upon the stabilisation of the effect of adjustment of sales and production strategy in the upcoming year.

## Plant Protection Technical Services

The Group's plant protection technical services recorded a service income of approximately HK\$17,768,000 for the year ended 30 June 2006 (2005: HK\$13,139,000), an increase of approximately 35% and contributed an operating profit of approximately HK\$14,118,000 (2005: HK\$5,747,000), demonstrating the rapid growth of the business, in the back of the commencement of wide application of the distant diagnose system for plant diseases and pests of agriculture produces since the last year.

## Non-agricultural Resources Products Trading Business

In order to develop the Group into an international enterprise in face of China's accession in the WTO, and to minimise its business risk; as well as to increase the Group's cash flow generating capability so as to obtain better bank financing, the Group commenced export of non-agricultural resources products since the last year. This business also allows the Group to gain import and export experience for future trading of agricultural resources products in the international markets.

Such business contributed a turnover of approximately HK\$478,035,000 (2005: HK\$355,667,000) with a gross profit margin of approximately 3% (2005: 1%).



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## 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 2006, the cash and bank balances and restricted bank deposits of approximately HK\$355.7 million included approximately HK\$8.9 million which was denominated in Hong Kong dollars, approximately HK\$341.4 million which was denominated in Renminbi, and approximately HK\$5.4 million which was denominated in US dollars.

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/US 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 2006, the Group had bank borrowings of approximately HK\$201.5 million (denominated in Renminbi), which bore interest at rates ranging from approximately 4.6% to 8.8% per annum, of which approximately HK\$2.9 million, HK\$7.4 million, HK\$1.9 million, 9.7 million and HK\$179.6 million were secured by certain inventory of the Group, certain investment property of a joint venture entity, certain property, plant and equipment of the Group, corporate guarantee provided by a joint venture entity and corporate guarantee provided by certain subsidiaries, respectively. As at 30 June 2006, the Group had bills payable of approximately HK\$556.3 million which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of approximately HK\$209.9 million which was also denominated in Renminbi.

As at 30 June 2006, the Group maintained a gearing ratio of approximately 48%. This is based on the division of bank borrowings by total equity attributable to equity holders of the Company as at 30 June 2006. The Directors considered that the gearing ratio as at 30 June 2006 was healthy, taking into account of the nature and scale of operations of the Group.

### Commitments

As at 30 June 2006, the Group had no significant outstanding contracted capital and other commitments. As at 30 June 2006, the Group had operating lease commitments of approximately HK\$5,973,000.

### Contingent liabilities

As at 30 June 2006, the Group had no material contingent liabilities.

## Remuneration Policies and Share Option Scheme

The Group incurred total salaries and other remunerations (excluding employee share options compensation expenses) of approximately HK\$17.8 million with an average number of about 1,000 staff during the year ended 30 June 2006.

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 2006, options in respect of 56,500,000 Shares of the Company were granted to the relevant participants under the Scheme (2005: no option was granted).