

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY AND BUSINESS REVIEW

For the year ended 31 December 2001, the Group recorded a total turnover from the sale of eel feeds and shrimp feeds of HK\$139.3 million (2000: HK\$285.1 million), representing a decrease of 51% as compared to the prior year. The net loss from operating activities was HK\$54.4 million (2000: net profit of HK\$39.2 million (as restated)).

During the year, the Group has continued to engage in the manufacturing and selling of eel feeds and shrimp feeds under its own brand name "Juhua" (聚華) in the PRC. As US economies growth slowed and Japan entered into another recession, the Group's business was adversely affected. Under such global economies downturn, the Group has implemented a direct marketing sales strategy, which targeted at the ultimate users of the Group's products, in order to control the cost of sales and reduce the handling charges. Such cost saving strategy constricts the loss of the Group and also strengthens the competitive advantage of our products.

SEGMENT INFORMATION

As a number of eel breeding farms in PRC were suffered from typhoon during the year, the output of eels in ponds decreased. The Group's feeds production plants in Zhangzhou, Putian, Fuqing and Jianou were all suffered to different extents. Consequently, the sales operation of the Group was adversely affected by the disastrous condition of eel breeding farms.

The Group's shrimp feed business was also affected by several tyoons in Hainan during the year. The sales of shrimp feeds decreased as the tyoons damaged many shrimp breeding farms in Hainan. In addition, the poor economic condition in Asia and the weakened domestic demand for high quality shrimp has affected the shrimp feed business of the Group.

FUTURE PROSPECTS

The shareholding restructuring of the Group has been completed on 14 December 2001. It has also undergone a management reform. The new management has extensive experience in investing, managing and operating projects in the PRC which has brought a new dynamic for growth to the Group.

FUTURE PROSPECTS (continued)

The Group was renamed to its current name in January 2002 and will continue to maintain its original business in the production and selling of eel feeds. At the same time, the Group is also actively seeking to develop scalable hi-tech agricultural projects and related businesses. It is also planning to enter cooperative agreements with well-known agricultural organizations to undertake agricultural research in the PRC, as well as to develop advanced agricultural businesses. Subsequent to year end date, the Group has entered into a cooperative agreement with Tsinghua International Technology Transfer Centre (Shenzhen) to form a joint venture company ("JV Co.") in the PRC. The total registered capital of the joint venture shall be RMB21 million and the total investment capital of the joint venture shall be RMB70 million. The Group will have an equity interest of 70% and be responsible for contributing 70% of the total registered capital which is RMB14.7 million in cash. The JV Co. is an advanced technological agricultural enterprise, with an initial focus on the development of the plant seed market in the PRC. It will engage in the nurturing, promotion and agricultural investment of new species. The investment will serve to complement its core businesses and lead to an overall increase in the value of its shares by contributing to the future earnings of the Group. These moves will also promote and enhance the Group to become a leading position in the agricultural industry both locally and internationally.

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group's operation was mainly financed by the internal financial resources and banking facilities such as trust receipt loans and overdraft. As at 31 December 2001, the Group's bank borrowings was HK\$30 million for the purchase of raw material in the PRC and to provide general working capital which were mainly secured by certain bank deposits, the leasehold land and buildings of the Group and corporate guarantees of the Company. The net current assets, total assets and cash and cash equivalents at 31 December 2001 were HK\$154.9 million, HK\$343 million and HK\$38.7 million respectively. The cash and cash equivalents were mainly denominated in Renminbi. The Group is permitted to exchange Renminbi for foreign currencies through the authorisation of the bank to conduct foreign exchange business under the relevant regulations of the PRC Law.

The gearing ratio and the liquidity ratio increased from 1.16% (as restated) to 1.2% and decreased from 453.5% to 428.2% respectively as compared to 31 December 2000. The calculation of gearing ratio is based on long term debt of HK\$3,495,000 (2000: HK\$3,833,000) and the shareholder's equity of HK\$292,396,000 (2000: HK\$329,966,000 (as restated)) at the balance sheet date. The calculation of liquidity ratio is based on the current assets of HK\$202,105,000 (2000: HK\$212,209,000) and the current liabilities of HK\$47,194,000 (2000: HK\$46,792,000) at the balance sheet date. During the year, 77,000,000 new ordinary shares were issued in respect of the share options granted to certain employees of the Group under the Shares Option Scheme of the Company exercised during the year, which resulted in the raising of cash proceeds of approximately HK\$16,458,000 before issue expenses.

On 20 March 2002, the Company entered into a placing agreement with a placing agent, Hooray Securities Limited, pursuant to which the Company will place through the agent a total of 251,000,000 new shares to independent investors at a price of HK\$0.11 each. A net proceed of approximately HK\$27,069,000 will be received by the Company when the placing agreement is completed. The proceed would provide the Group additional working capital for its existing operation as well as financing the investment projects in future.

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES (continued)

On 2 May 2002, the resolutions for a capital reduction and subdivision of the Company were duly approved by shareholders at the special general meeting, pursuant to which the nominal value of the shares of the Company was reduced from HK\$0.1 each to HK\$0.01 each. The reduction in the par value of the shares results in greater flexibility for the Company in pricing of new shares in case of capital fund-raising exercise or asset acquisition by way of allotment or placement of shares.

At the balance sheet date, the Group had a capital commitment of HK\$11.2 million (2000: HK\$11.2 million) in respect of investments in subsidiaries.

CONTINGENT LIABILITIES

As at 31 December 2001, the Company provided corporate guarantees of HK\$65,400,000 (2000: HK\$95,208,000) for banking facilities granted to certain of its subsidiaries which were utilised to the extent of HK\$29,359,000 (2000: HK\$27,494,000) as at balance sheet date.

BANK BORROWING AND CHARGE ON GROUP ASSETS

As at 31 December 2001, the Group's bank borrowings were secured by the followings:

- (a) a legal charge on certain leasehold land and buildings of the Group with an aggregate net book value of HK\$3,600,000 (2000: HK\$4,320,000) at the balance sheet date;
- (b) corporate guarantees executed by the Company for the banking facilities of HK\$65,400,000 (2000: HK\$95,208,000) granted to certain of its subsidiaries, of which HK\$29,359,000 (2000: HK\$27,494,000) has been utilised at the balance sheet date;
- (c) pledged bank deposits of the Group in the amount of HK\$7,135,000 (2000: HK\$2,845,000); and
- (d) a personal guarantee executed by Mr. Kwok Man Yu, a director of the company, of which HK\$750,000 (2000: Nil) has been utilized at the balance sheet date.

EMPLOYEE

As at 31 December 2001, the Group had approximately 271 employees in Hong Kong and the PRC. Staff costs for the year amounted to HK\$2,116,000 (2000: HK\$2,956,000). The Group is well acquainted with the importance of maintaining high calibre and competent employees by implementing a strict recruitment policy accordingly. The remuneration of employees was determined on the basis of employees' responsibility and market conditions. We also offer employees with fringe benefits such as share options and professional training subsidies in order to instill a sense of loyalty to the Group.