



# Management Discussion and Analysis



	Cultivation Bases (mu)	Cultivation Capacity (tons)	Production Capacity (Approx. tons)
<b>Fujian (Huian)</b> (including Hubei & Zhejiang)	34,000	170,000	159,000
<b>Hebei</b>	3,000 #	12,000	20,000 #
<b>Jiangxi - Rice</b>	N/A	N/A	50,000
- Processed products	3,000 *	N/A	66,000 #
<b>Fujian (Zhangpu)</b>	5,000 #	36,000	59,000 #
<b>Shanghai</b>	3,000 *	N/A	50,000 #
<b>Thailand</b>	330	1,200	N/A

\* Pending to lease

# Commence after 30 April 2005

## **INDUSTRY OVERVIEW**

Currently, Green Food certification in the PRC has already achieved unprecedented results in various aspects. Green Food certification has brought out a clear concept of safety and environmental friendly, creating the first brand with quality accreditation in the PRC and building up image for quality agricultural produce. On the other hand, the food industry advocated a quality control technical standard of “from farm to dining table” which implemented throughout the entire process, covering various aspects such as farmland environment, production process, product quality, packaging and labelling, fresh storage and transportation, and its overall standards are on par with those national food quality and safety standards in developed countries such as the European Union, US and Japan. The “AA” grade Green Food Standard is also coherent with the international organic food standard. Furthermore, the industry has developed the integrated management principle of “technical standard as bases, quality accreditation as ways, trademark management as means”. Moreover, a work system which integrates agricultural departments with social resources and a professional team comprising members from different levels of green food management organizations, environment monitoring organizations and product quality control organizations was established. In the course of development of production system, protection system including related technical support, marketing, information service, quality control and certification management were also developed accordingly. As a result, the PRC has become one of the major food exporters. In January to December 2004, the export sales of vegetables and fruits of the PRC amounted to approximately US\$5.44 billion. The PRC is now the largest importer of vegetables and fruits of Japan and is becoming a major importer of many other countries as well.

## **BUSINESS REVIEW**

Apart from the development of various new products, the Group also committed to constant technology upgrade and further development, so as to maintain the Group’s competitive edge. On this basis, the Group will penetrate into markets with advanced food technology as a result of diversifying its product range. By strengthening its scale and capability, the Group is able to enhance its range of products with innovative ability.

### **Business segment**

#### *Fresh produce*

For the year ended 30 April 2005, the sales of fresh produce generated a turnover of approximately RMB293.0 million, which accounted for approximately 62.3% of the Group’s total revenue. Among other products, the sales of fresh produce recorded a strong growth of approximately 25.4% as compared to 2004. During the year under review, naganegi, broccoli and perilla were the heavy weights among the fresh produce with sales of approximately RMB57.4 million. Perilla was the Group’s newly developed product during the year with sales amounted to approximately RMB13.7 million.

#### *Processed products*

During the year under review, the sales of processed products amounted to approximately RMB85.6 million, which accounted for approximately 18.2% of the Group’s total revenue. Water-boiled radish is the best seller among the processed products with sales amounted to approximately RMB30.2 million. Amongst processed products, quick frozen vegetable was one of the Group’s new product categories during the year under review with sales amounted to a total of approximately RMB12.7 million.

#### *Pickled products*

Revenue from pickled products surged by approximately 29.0% to approximately RMB59.3 million as compared to that of last year. Pickled plum compromised the majority of turnover of the pickled products with sales amounted to approximately RMB28.8 million. Moreover, the newly developed pickled mushroom in the segment contributed sales turnover amounted to approximately RMB20.7 million.

#### *Beverage products*

Beverage products was another new product segment launched by the Group during the year under review with sales amounted to approximately RMB6.4 million, representing approximately 1.4% of the Group's total revenue. The Group will continue to develop the corn beverage products series. Corn milk is the pioneer product launched among the corn series and had been identified as a strategic product to build up the Group's brand image in the PRC.

#### *Rice products*

Rice was another new product segment launched by the Group during the year under review. The sales of rice amounted to approximately RMB26.2 million, which accounted for approximately 5.6% of the Group's total revenue. As rice products are all domestic sales, the gross profit margin of rice products is lower than other products. However, the Group planned to introduce rice processed products by early September 2005, which will help the Group to improve the gross profit margin of the rice products segment.

### **MARKET REVIEW**

Regarding market expansion, the Group actively explored both export and domestic markets. Apart from focusing on its existing Japan market, the Group strived to explore the Southeast Asia, Europe and other overseas markets, in order to broaden its overseas client base. Meanwhile, as the Group was able to seize the opportunities arising from the change in domestic spending pattern since 2002 and benefited from the Agro-renovation project (農改超工程) undertaken by the government, domestic market share of the Group's products increased substantially.

#### **Geographical segment**

##### *Export*

For the year ended 30 April 2005, the revenue from export sales increased by approximately 13.1% to approximately RMB283.6 million as compared to fiscal year 2004. Japan is continued to be the largest sales market of the Group, which recorded approximately 4.2% increase in turnover to approximately RMB228.8 million for the year under review and accounted for approximately 48.6% of the Group's total turnover.

##### *Domestic*

During the year under review, the revenue from domestic sales increased by approximately 50.0% to approximately RMB187.0 million as compared to the previous year. The encouraging growth of the domestic sales was mainly attributable by the growing demand on fresh produce and introducing of rice products which represented approximately 78.2% and 14.0% of the total domestic sales respectively.

### **CULTIVATION BASES AND FOOD PROCESSING PLANTS**

Including the Group's cultivation facilities in Fujian and Zhejiang Provinces, during the year under review, the Group also expanded its cultivation base and processing plant. The cultivation base in Hubei is situated at the altitude of 1,000 meters above sea level, therefore, the Group is able to undertake seasonal complimentary cultivation activities of agricultural produce during the year so as to achieve constant supply of produce throughout the year and lower the cost of cultivation.

Moreover, the rice processing plant located in Fengxin County, Jiangxi Province commenced production in February of 2005. Fengxin County has been renowned as "Production land for tribute rice (貢米產地)" and "Homeland of rice (稻米之鄉)" long time ago, therefore, the Group obtained the exclusive right to produce rice and sell under a famous local brand name – "碧雲". Through the implementation of brand management, the Group consolidated the production bases of organic rice, "AA" graded rice, with the advanced growing technology, the Group will be able to advance the well-established green food sales network in the PRC.

During the year under review, the Group has a total of 27 cultivation bases with gross cultivation area of 34,000 mu spread across the PRC and an asparagus cultivation base sized of about 330 mu in Thailand on which the annual production capacity reached a total of approximately 160,120 tons of produce. Moreover, the Group has 7 advanced processing plants with gross processing area of approximately 10,600 sq.m. and processing capacity of approximately 154,000 tons of fruits and vegetables and 9,000 tons of rice this year.

### **QUALITY ASSURANCE**

Based on the ISO9001:2000 and HACCP certification obtained by the Group, the Group is currently in pursuit of compliance with the IFS Standard for expansion into the European market.

### **ESTABLISHMENT OF NEW CULTIVATION BASES AND EXPANSION OF FOOD PROCESSING PLANT**

The Group believes that expanding cultivation bases and processing plants into other regions is necessary for the formation of the Group's business model. Moreover, it is also an effective way to minimize the risk exposure of cultivation activities from the damage of natural disasters. Accordingly, the Group planned to invest approximately RMB300 million for the expansion and set up of new cultivation bases and processing plants in the coming year. Apart from Fujian, Zhejiang and Hubei, the Group will establish new processing plants in Hebei, Jiangxi, Zhangpu County, Fujian and Shanghai. Save for Shanghai, the abovementioned new processing plants are expected to complete during the period from August to November 2005 and the plant in Shanghai is expected to complete by the end of 2006. The management is confident that the new cultivation bases and processing plants will strengthen the Group's position in the PRC food industry. The Group expected that additional revenue contribution from these businesses will be reflected in the next financial year.

### **Zhangjiakou Hebei**

In order to achieve the seasonal complimentary cultivation to provide stable supply of products with consistent quality at stable prices, the Group established another processing plant in Zhangjiakou City, Hebei Province which commenced production in early August 2005. Since Zhangjiakou City shares the borders with Inner Mongolia at the altitude of 600-1,300 meters above sea level and there is a longer light-shedding period per day, wider temperature differentiation and fertile land, making it one of the best cultivation bases for various kinds of vegetables.

### **Fengxin Jiangxi**

In order to broaden the client base and create wider range of different types of products, the Group established a cultivation base and processing plant for rice processed products and canned products in Fengxin County, Jiangxi Province, after a long term and in-depth geographical surveys and resources analysis. The Group took advantages of natural resources in Jiangxi to develop new product series such as mushrooms, bamboo shoots and rice flour, which serves clients in Europe, South East Asia and other overseas countries. Moreover, in order to ensure the quality of rice flour, the Group had takenover a rice processing plant and obtained the exclusive right to produce rice and sell with a famous local brand name – “碧雲”. The Directors believed that the sales of processed products will be a potential growth driver in the coming year.

### **Zhangpu Fujian**

Due to the saturated capacity of the processing plants in Huian County, Fujian Province, in early 2005, the Group decided to establish a processing plant in Zhangpu County, Fujian Province where is located at the southern end of Fujian Province with abundant farmland reserve. Through the advanced growing technology and experience, the Group will able to utilize effectively the cultivation bases in Zhangpu.

## **PROSPECTS**

Looking forward, the Group will commit to strengthen the existing businesses and strive to explore other business opportunities. By widening the product offering range, developing new high value-added products as well as identifying new investments or partners, the Group will achieve the goal of becoming a comprehensive green food supplier in the PRC.

## **TREASURY POLICY**

As at 30 April 2005, the Group had cash and cash equivalents of approximately RMB532 million. The Group had deposited the money in banks in the PRC, Thailand and licensed banks in Hong Kong.

## **CAPITAL COMMITMENTS AND CONTINGENCIES**

During the year, the Group committed to the expansion of the Group's existing facilities to enhance its production capacity. As at year end, the Group has outstanding contractual capital commitments of approximately RMB18.0 million. As at 30 April 2005, the Group has not provided any form of guarantees for any company outside the Group and was not involved in any material legal proceedings of which provision for contingent liabilities was required.

### **EXPOSURE TO FLUCTUATION IN EXCHANGE RATES**

For the year ended 30 April 2005, the Group conducted its business transactions principally in US dollars and Renminbi. The Group had not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchange rates. The Directors believe that 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.

On 21 July 2005, the People's Bank of China adjusted the exchange rate of Renminbi to US Dollars from 8.2765 to 8.1100. In view of the magnitude of this adjustment, the appreciation of Renminbi has positive but immaterial impact to the Group.

### **SIGNIFICANT INVESTMENT AND ACQUISITION**

During the year under review, the Group made no significant investment nor had it made any material acquisition or disposal of subsidiaries and associates.

### **CHARGES ON ASSETS**

As at 30 April 2005, the Group had not pledged any asset to its bankers to secure banking facilities granted to the Group.

### **STAFF AND REMUNERATION POLICIES**

As at 30 April 2005, the Group had a total of over 3,100 employees, of which approximately 2,000 are workers in the Group's cultivation bases. The aggregate staff costs and Directors' remuneration for the year ended 30 April 2005 was approximately RMB58.8 million (2004: approximately RMB49.8 million). Employees are remunerated at a competitive level taken into account of their performance and experience. Other benefits include mandatory provident fund and year-end bonus based on individual performance.

A share option scheme was adopted by the Company on 12 December 2003, pursuant to which the Directors may offer to any eligible employees (including the 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.

### **FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS**

The Board resolved to recommend the payment of a final dividend of HK\$0.038 per share (approximately RMB0.039) for the year ended 30 April 2005 (2004: HK\$0.02) to be payable on or about 19 October 2005 to those shareholders whose names appear on the register of members of the Company on 5 October 2005.

The register of members of the Company will be closed from 3 October 2005 to 5 October 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and attendance at the forthcoming annual general meeting to be held on 5 October 2005, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 30 September 2005.