

Management Discussion and Analysis

INDUSTRY OVERVIEW

China has always been a major food exporter. Significant growth on the export sales of fresh vegetables and fruits from the PRC had been recorded since the 90's which outreached the growth rate of import of fresh produce to the PRC from overseas markets. The PRC is now the largest importer of fresh produce of Japan and is becoming one of the most significant importer of fresh produce and processed and pickled products of many other developed countries as well. More vigorous domestic demand for top quality fresh vegetables and fruits in the upcoming future is observed.

BUSINESS REVIEW

Business segment

Fresh produce

For the year ended 30 April 2004, the sales of fresh produce generated a turnover of approximately RMB234 million, which accounted for 62.2% of the Group's total revenue. The sales of fresh produce recorded a prominent growth of 48.9% as compared to that of 2003.

Processed products

During the year under review, the sales of processed products contributed a turnover of approximately RMB96 million amounting to 25.5% of the Group's total revenue. The sales of processed products recorded a strong growth of about 63.5% among products as compared to the previous year.

Pickled products

Revenue from pickled products surged by 7.0% to approximately RMB46 million as compared to that of the last year. The pickled products are processed by a self-developed modified light salt pickling technique which helps to maintain the salt content in an appropriate level so as to suit the needs of the Japanese customers. The Group's pickled products have complied with all applicable food and food hygiene laws, rules and regulations of the PRC.

Geographical segment

Export

For the year ended 30 April 2004, the revenue from overseas sales increased by 17.6% to approximately RMB251 million as compared to that of 2003. Japan, as the largest sales market of the Group, continued to present a solid performance which recorded a 7.7% increase in turnover to approximately RMB220 million for the year under review and amounted to 58.5% of the total turnover of the Group. Regarding the substantial demand from Japan on fresh vegetable and fruits, in order to better serve the needs of the market and to maintain the competitiveness of the Group, the Group adhered to a proactive seasonal complementary supplier approach in order to effectively compliment the shortage of vegetables and fruits supply from local grower in Japan due to climatic constraints.

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Domestics

During the year under review, the revenue from domestics sales increased by 176.0% to approximately RMB125 million as compared to the previous year. The encouraging growth of the domestics sales was mainly attributable to the robust demand on fresh produce which represented over 95% of the total domestic sales. Alarm on sub-standard of local food production posted by the threat from food poisoning incidents and production and sales of fake foodstuffs in the PRC recently has triggered vigorous local consumption on quality guaranteed products. The sound reputation of the Group as being one of the leading supplier of processed and pickled products to overseas markets, in particular Japan, has strengthened the confidence of domestic consumers in consuming the Group's safe and high quality crop-compliant products which sold under its own brand name through its expanded distribution network in the PRC.

CULTIVATION BASE AND FOOD PROCESSING PLANT

The Group has strategically located its cultivation facilities in Fujian and Zhejiang provinces. The strategic locations of cultivation bases help the Group to grasp both the advantages in growing in the northern and the southern part of the PRC. Attempting to guarantee stable supplies of produce and to lower the cost of production, the Group has leased three new cultivation bases in Fujian totally sized about 4,200mu and 1 new cultivation base in Hubei sized about 3,000mu. Currently, the Group has 27 cultivation bases sized of about 34,000mu spread across the PRC which are producing approximately 92,000 tons of produce for processing annually. There are 4 advanced processing factories with gross production area of approximately 18,000sq m and annual production capacity of approximately 85,000 tons.

Apart from seeking for better cultivation bases in the PRC, the Group has also developed cultivation bases in Thailand in order to accommodate the thriving demand from overseas markets since August 2004. Thailand has a more favorable environment for growing certain kinds of vegetables and fruits such as asparagus, OKAR and mango than the PRC. The cross-country expansion of cultivation bases will help the Group to diversify its revenue structure. The major produce to be grown in Thailand will be asparagus and OKRA mainly for the exportation to Japan. Given the fertile soil and favorable climate in Thailand, the growing season of asparagus is as long as 240 days per annum.

OPERATING STRATEGIES

The Group continued to uphold the sales driven cultivation and production strategy for the purpose of maintaining the competitiveness and operating flexibility in amidst the highly competitive market conditions. Proactive seasonal complementary supplier approach has successfully realized the strength of the Group's sophisticated cultivation management practices. The Group selects the strategic locations of processing plants near the coastal area which helps to ensure the conservation of the fresh quality of the perishable products of the Group during shipment and to guarantee the shipment to international markets at its greatest efficiency.

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The Group has in place a dedicated management team which is composed by experienced and highly educated agricultural professionals equipped with all-embracing knowledge and experience in modern agricultural business management and their enduring development efforts never come to a halt.

The Group has also closely cooperated with several academic and scientific research institutes in refining the know-how of cultivation and processing technique. Moreover, the Group has established a scientific research center of agriculture and a research center of food for the purpose of attaining more sophisticated techniques in plantation and food processing.

By adopting an end-to-end, vertically integrated approach to the cultivation and processing of vegetable and fruit, the Group has successfully controlled the cost, quality and quantity of its produce without overmuch relying on external suppliers and other third parties. The Group grows majority of its products by itself in long-term leased cultivation bases. A vivid example is as People's Daily, one of the most powerful newspapers in the PRC, reported on 23 July 2004, the Group was named as one of the only two exporters of excellent fresh spinach in the country.

QUALITY ASSURANCE IN PRODUCTION

Over the years, the Group places great importance on the quality control of its produce and products. The Group was accredited with ISO 9002:1994 certificate in October of 2001 and ISO 9001:2000 certificate in July of 2004. In addition to providing top quality products to its customers, the Group also places a strong emphasis on safety and hygiene. Recently, the Group's two production factories located in the Hui An County, Fujian Province in the PRC, were awarded the internationally recognized HACCP certificate to acknowledge the observance of the strictest hygiene standards throughout the fresh vegetables processing and packaging and retort pouch food production in July of 2004. Meanwhile, the Group has been selected as the leading industrialized agricultural enterprise in Fujian Province (福建省農業產業龍頭企業) and the leading food industry enterprise in China (中國食品行業龍頭企業). These recognitions provided the Group with an improved corporate image for enduring growth.

PROSPECTS

Looking forward, the Group will endeavor to maximize the spectrum of produce and processed products in order to capture more extensive market coverage. The new development of the Group will not be confined to the cultivation and processing of vegetable and fruit, but also will include other food industry such as oils and foodstuff, seafood, poultry and tea, etc. As expected by the Group, to engage in the above new businesses will lead the Group to be the comprehensive green food supplier in the PRC.

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DEVELOPMENT OF HIGH VALUE-ADDED PRODUCTS

In view of the enlarging demand from overseas market, the Group has newly developed the production of quick frozen products in order to cater the needs for products with longer preservation period in Autumn of the year 2004 in overseas. Quick frozen products are kept frozen in the approximately -20°C conditions with longer preservation period from 6 to 12 months comparing with fresh produce which possessed with 15 to 30 days preservation period only. The Group also observed the existence of substantial demand for quick frozen products on certain best selling products imported by Japan such as hairy peas. The Group believes that the sales of quick frozen products will be a potential driver of sales growth in the coming year. A production line for the processing of quick frozen products has been in place already and two additional production lines will be taken into operation in Spring of the year 2005. In the future, the Group will strive hard to explore a wider coverage of overseas markets such as Europe and USA and penetrate deeper into the existing markets.

To make better use of our products, the Group has expanded to produce fresh juices in the Autumn of the year 2004 by using the existing vegetables and fruits grown by the Group. Instant fresh carrot juice and fresh plum juice have already been introduced into the market since July 2004.

ESTABLISHMENT OF NEW CULTIVATION BASES AND EXPANSION OF FOOD PROCESSING PLANT

In the coming year, the Group is planning to invest approximately RMB250 million in setting up new cultivation bases and processing factories. The Group will expand new cultivation bases in Hebei, Shanghai, Jiangxi as well as in Fujian. Bases and factories in Hebei, Jiangxi and Fujian are expected to cultivate and produce in the Winter of the year 2004 and Shanghai are expected to cultivate before Summer of the year 2005. The management is confident that the new cultivation bases and processing factories will provide a wider products range of the Group, which will enable the Group to consolidate its leading position in the food industry. The Group expected that additional revenue contribution from these cultivation bases will be reflected in the near future.

TREASURY POLICY

As at 30 April 2004, the Group had cash and cash equivalents of approximately RMB353.6 million. The Group had deposited the money in banks in the PRC and licensed banks in Hong Kong.

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USE OF PROCEEDS

As at 30 April 2004, the Group had applied part of the listing proceeds as follows:

- as to approximately RMB8,000,000 for the expansion of the Group's existing facilities, e.g., cultivation bases, refrigeration system, greenhouse, protective cover and irrigation systems;
- as to approximately RMB17,500,000 for the establishment of facilities for quick frozen fruits and vegetables, and for fruit and vegetable juice processing;
- as to approximately RMB41,000,000 for leasing and equipping new cultivation bases and building fruit and vegetable processing facilities;
- as to approximately RMB1,200,000 for the research and development of new cultivation fruit and vegetable processing and freshness preservation technology;
- as to approximately RMB500,000 for funding sales and marketing activities for both domestic and international markets; and
- as to approximately RMB2,200,000 for the application of Green Food Certification and HACCP certification and ISO9001:2000 certification.

CAPITAL COMMITMENTS AND CONTINGENCIES

During the year, the Group committed to the expansion of the Group's existing facilities to enhance its production capacity. The total investment for the project is estimated at approximately RMB59,800,000 in which RMB55,600,000 has been incurred in the financial year 2004. As at 30 April 2004, the Group has not provided any form of guarantees for any company outside the Group and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

For the year ended 30 April 2004, the Group conducted its business transactions principally in US dollars and Renminbi. The Group had not experienced any material difficulties or negative effects on its operations as a result of fluctuations in currency exchange 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 prudence measure as deemed appropriate.

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.

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CHARGES ON ASSETS

As at 30 April 2004, 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 2004, the Group had a total of over 3,100 employees, of which approximately 2,000 are workers on the Group's cultivation bases. The aggregate staff costs and Director's remuneration for the year ended 30 April 2004 was approximately RMB49.8 million (2003: approximately RMB30.9 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\$0.02 per share (approximately RMB0.021) for the year ended 30 April 2004 (2003: Nil) to be payable on or about 7 October 2004 to those shareholders whose names appear on the register of members of the Company on 23 September 2004.

The register of members of the Company will be closed from 20 September 2004 to 23 September 2004, 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 23 September 2004, 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 17 September 2004.