



NOTES TO INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The Interim Financial Statements have been prepared in accordance with the disclosure requirements of Appendix 16 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKSE") issued by the HKSE and with Hong Kong Statement of Standard Accounting Practice (the "SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies and basis of preparation used in the preparation of the Interim Financial Statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 30 April 2004 except the first time adoption of the following SSAP.

SSAP 36 "Agriculture"

The principal effect of adoption of SSAP 36 "Agriculture" is in relation to the agricultural activity. SSAP 36 requires the measurement of biological assets at their fair value less point-of-sales costs and introduces certain new disclosure requirements for biological assets and agricultural produce. The adoption of SSAP 36 has resulted in changing the Group's accounting policy and applied retrospectively. As a result, comparative figures have been restated. Details of the restatement are set out in note 15 of the Interim Financial Statements.

2. Segment Reporting

(a) Business segment

The Group is principally engaged in the planting and sales of agricultural products. An analysis of the Group's turnover and gross profit by products categories for the six months ended 31 October 2004 and 2003 are as follows:

	Six months ended 31 October	
	2004 RMB'000	2003 RMB'000
Turnover		
Fresh produces	103,738	73,636
Processed products	48,814	36,219
Pickled products	20,939	25,751
Beverage	4,407	—
	<u>177,898</u>	<u>135,606</u>
Gross profit		
Fresh produces	48,108	32,853
Processed products	29,482	20,425
Pickled products	9,364	13,776
Beverage	2,196	—
	<u>89,150</u>	<u>67,054</u>

(b) *Geographical segment*

An analysis of the Group's result of operation by geographical location for the six months ended 31 October 2004 and 2003 are as follows:

	Six months ended 31 October	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Turnover		
Japan	88,539	79,207
Mainland China	83,902	55,344
Philippines	899	1,055
Malaysia	1,353	–
Taiwan	3,205	–
	<u>177,898</u>	<u>135,606</u>
Gross profit		
Japan	50,787	44,891
Mainland China	35,001	21,624
Philippines	417	539
Malaysia	570	–
Taiwan	2,375	–
	<u>89,150</u>	<u>67,054</u>

No analysis of assets and additions to property, plant and equipment by geographical location is presented as over 99% of the Group's assets in terms of net book value at each respective balance sheet dates are located in the People's Republic of China (the "PRC").

3. **Operating profits**

Operating profits are stated after crediting and charging the following:

	Six months ended 31 October	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Crediting		
Amortisation of negative goodwill	226	226
Interest income	682	195
Rental income	17	17
Exchange gain	83	–
Gain on change in fair value of plantation	13,940	13,341
	<u>14,948</u>	<u>13,789</u>
Charging		
Auditors' remuneration	–	–
Depreciation of owned property, plant and equipment	4,628	2,974
Operating lease expenses		
– land and building	509	691
– other plant and machinery	80	–
Staff costs (including directors emoluments)	24,368	21,660
Research and development expenses	1,480	1,162
Amortisation of long-term prepaid rental included in cost of goods sold (net of amount capitalised in inventory)	8,234	6,226
Exchange loss	–	5
	<u>39,319</u>	<u>33,058</u>



4. Taxation

	Six months ended 31 October	
	2004	2003
	RMB'000	RMB'000
Hong Kong profits tax	—	—
PRC enterprise income tax	<u>20,197</u>	<u>7,525</u>
	20,197	7,525
Deferred taxation	<u>347</u>	<u>1,481</u>
	20,544	9,006

(a) *Hong Kong profits tax*

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in or derived from Hong Kong.

(b) *PRC enterprise income tax*

Zhonglu (Fujian) Agriculture Comprehensive Development Company Limited ("Zhonglu Fujian"), a wholly owned subsidiary of the Company is subject to PRC enterprise income tax at a rate of 24%. However, in September 2004, Zhonglu Fujian was awarded as "State-Level Agricultural Leading Enterprise" of the nation by the central government of the PRC. According to the circular Nong Jing Fa 2004 No.5, domestic PRC Stated-Level Agricultural Leading Enterprises are entitled to certain tax benefits including full exemption of PRC enterprise income tax. Other PRC subsidiaries incorporated during 2004 would enjoy exemption from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction in state income tax for the next three years.

5. Dividends

At a board meeting held on 19 January 2005, the Board has resolved to declare an interim dividend of RMB0.0297 (equivalent to HK\$0.028) per share for the six months ended 31 October 2004 (2003: Nil).

6. Earnings per share

The calculation of the basic earnings per share is based on the Group's profits for the period of RMB62,058,000 and the number of shares of 622,500,000 in issue during the period.

The calculation of the basic earnings per share for the six months ended 31 October 2003 is based on the profit attributable to shareholders during that period and assuming 450,000,000 shares in issue, comprising 4,900,000 shares in issue as at the date of the Company's prospectus dated 31 December 2003 and 445,100,000 shares issued pursuant to the Capitalisation issue as described in the section headed "Further information about the Company" in Appendix IV to the Company's prospectus.

Diluted earnings per share is not presented as there were no dilutive potential shares existed during the period.

7. Property, plant and equipment

During the period, approximately RMB10,384,000 and RMB46,457,000 were spent on acquisition of fixed assets and construction-in-progress (2003: RMB6,707,000 and RMB6,750,000 respectively).

8. Accounts receivable

Credit terms granted by the Group to customers are generally less than one month.

Included in trade receivables are balances with the following aging analysis:

	As at 31 October 2004 RMB'000	As at 30 April 2004 RMB'000
Within 1 month	4,697	12,222
Over 1 month but less than 3 months	67	5,209
Over 3 months but less than 6 months	<u>8</u>	<u>–</u>
	<u>4,772</u>	<u>17,431</u>

9. Bank balances and cash

	As at 31 October 2004 RMB'000	As at 30 April 2004 RMB'000
Cash on hand	978	650
Cash at banks	<u>379,774</u>	<u>352,911</u>
	<u>380,752</u>	<u>353,561</u>

10. Accounts payable and accrued expenses

Accounts payables and accrued expenses consist of:

	As at 31 October 2004 RMB'000	As at 30 April 2004 RMB'000
Payable on property, plant and equipment	1,562	612
Accrued salaries and wages	4,519	4,893
Accrued rental expenses	300	–
Other accrued expenses	460	1,390
Trade payables (<i>Note 11</i>)	<u>1,242</u>	<u>121</u>
	<u>8,083</u>	<u>7,016</u>



11. Trade payables

Included in trade payables are balances with the following aging analysis:

	As at 31 October 2004 RMB'000	As at 30 April 2004 RMB'000
Within 1 month	392	121
Over 1 month but less than 3 months	850	–
	<u>1,242</u>	<u>121</u>

12. Commitments

(a) Capital commitments

At the balance sheet date, the Group had the following capital commitments:

	As at 31 October 2004 RMB'000	As at 30 April 2004 RMB'000
Contracted but not provided for		
– Purchase of property, plant and equipment	<u>26,261</u>	<u>6,130</u>

(b) Operating lease commitments

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of property, plant and machinery and cultivation bases for each of the following periods:

	As at 31 October 2004 RMB'000	As at 30 April 2004 RMB'000
Within one year	10,796	9,081
In the second to fifth	58,790	53,946
After the fifth years	<u>175,710</u>	<u>175,560</u>
	<u>245,296</u>	<u>238,587</u>

13. Contingent liabilities

The Group did not have any significant contingent liabilities as at the balance sheet date (30 April 2004 : Nil).

14. Related party transactions

Pursuant to SSAP 20 issued by the HKICPA "Related Party Disclosures", there was no related party transaction during the six months ended 31 October 2004 and 2003.

15. Prior year adjustments

During the period, the Group changed its accounting policy in respect of the accounting for cultivation. The change was required as a result of the introduction of SSAP 36, which became effective from 1 January 2004 and was applied retrospectively. The adoption of SSAP 36 have increased the shareholders' equity at 30 April 2004 from approximately RMB566,644,000 to RMB577,012,000 and profits attributable to the shareholders for the six months ended 31 October 2003 from RMB54,912,000 to RMB59,476,000.

16. Post balance sheet event

On 24 November 2004, the Company entered into a conditional top-up subscription agreement with Capital Mate Limited ("Capital Mate"), the controlling shareholder of the Company which is wholly and beneficially owned by Mr. Sun Shao Feng, the Chairman of the Company, for the subscription of 105,000,000 ordinary shares of par value of HK\$0.10 each in the capital of the Company at a price of HK\$1.46 per share upon the completion of placing of 105,000,000 shares by Capital Mate to certain independent investors. The subscription was completed on 8 December 2004 and the net proceeds of about HK\$151 million (equivalent to approximately RMB160 million) will be used in investments in the foods processing projects in Jiangxi and Shanghai. Details of which were set out in the announcement of the Company dated 25 November 2004.

Capital Mate held 65.06% and 55.67% before and after the placing and the subscription.

17. Comparative figures

With the adoption of the SSAP 36 "Agriculture", the presentation in the current period's financial statements has been modified in order to conform to the requirements of that standard. The adoption of SSAP 36 resulted in a change of accounting policy in respect of its cultivation. Comparative figures have been reclassified and restated in order to achieve a consistent presentation. The effect of which has been quantified in note 15 of the Interim Financial Statements.

18. Approval of the Interim Financial Statements

The unaudited Interim Financial Statements were approved and authorised for issue by the Board on 19 January 2005.