

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2002 are available from the Company's principal place of business in Hong Kong. The Company's auditors have expressed an unqualified opinion on those accounts in their report dated 28 April 2003.

The same accounting policies adopted in the 2002 annual accounts have been applied to the interim financial report, except for the change in accounting policy for taxation, consistent with SSAP 12 (revised) “Income taxes”, which has been adopted for the first time in the preparation of the interim financial report and is effective for accounting periods beginning on or after 1 January 2003.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2002 annual accounts.

2. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

2. SEGMENT INFORMATION *(continued)*

- (a) the nurturing, selling and trading of tree seedlings and seeds in the People's Republic of China (the "PRC"); and
- (b) the manufacturing and sale of aquatic feeds in the PRC.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted at mutually agreed terms.

The analysis of the principal activities and geographical location of the operations of the Group during the period is as follows:

(a) *Business segments*

| | Tree seedlings and seeds | | Aquatic feeds | | Consolidated | |
|---|---------------------------------|------------------|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| | Six months ended 30 June | | | | | |
| Segment revenue | 45,021 | – | 5,427 | 41,594 | 50,448 | 41,594 |
| Segment results | 14,306 | – | (2,273) | (96) | 12,033 | (96) |
| Interest income and unallocated revenue/gains | | | | | 2,471 | 17,994 |
| Unallocated expenses | | | | | (3,785) | (7,271) |
| Profit from operating activities | | | | | 10,719 | 10,627 |
| Finance costs | | | | | (14) | (913) |
| Profit on partial disposal of associates | | | | | – | 2,027 |
| Share of profits and losses of associates | | | | | – | (1,140) |
| Profit before tax | | | | | 10,705 | 10,601 |
| Tax | | | | | – | (56) |
| Profit before minority interests | | | | | 10,705 | 10,545 |
| Minority interests | | | | | (4,633) | – |
| Net profit from ordinary activities attributable to shareholders | | | | | 6,072 | 10,545 |

2. SEGMENT INFORMATION (continued)(a) *Business segments* (continued)

| | Tree seedlings and seeds | | Aquatic feeds | | Consolidated | |
|---|-----------------------------|-------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
| | Six months ended 30 June | | | | | |
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Other segment information: | | | | | | |
| Depreciation and amortisation expenses | 1,633 | – | 558 | 2,121 | 2,191 | 2,121 |
| Unallocated depreciation | | | | | 232 | 224 |
| | | | | | 2,423 | 2,345 |
| Amortisation of goodwill on acquisition of subsidiaries | 1,136 | – | – | – | 1,136 | – |
| Amortisation of goodwill on acquisition of associates | | | | | – | 1,815 |
| | As at 30 June 2003 | As at 31 December 2002 | As at 30 June 2003 | As at 31 December 2002 | As at 30 June 2003 | As at 31 December 2002 |
| Segment assets | 172,657 | 142,273 | 23,686 | 25,338 | 196,343 | 167,611 |
| Unallocated assets | | | | | 187,434 | 190,962 |
| Total assets | | | | | 383,777 | 358,573 |
| Segment liabilities | 24,131 | 8,054 | 1,263 | 665 | 25,394 | 8,719 |
| Unallocated liabilities | | | | | 53,856 | 80,031 |
| Total liabilities | | | | | 79,250 | 88,750 |

(b) *Geographical segments*

Over 90% of the Group's revenue, results, assets and expenditure are attributable to its operations in the PRC. Accordingly, an analysis by geographical segment is not presented.

3. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

| | Six months ended 30 June | |
|--|---------------------------------|-----------------|
| | 2003 | 2002 |
| | HK\$'000 | <i>HK\$'000</i> |
| Cost of inventories sold | 32,751 | 38,375 |
| Interest on borrowings | 14 | 913 |
| Amortisation of goodwill on acquisition of subsidiaries | 1,136 | – |
| Amortisation of goodwill included in share of profits and loss of associates | – | 1,815 |
| Amortisation of an intangible asset | 499 | 1,425 |
| Depreciation | 1,924 | 920 |

4. TAX

| | Six months ended 30 June | |
|--------------|---------------------------------|-----------------|
| | 2003 | 2002 |
| | HK\$'000 | <i>HK\$'000</i> |
| Overseas tax | – | 56 |

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

There was no significant unprovided deferred tax charge in respect of the period.

4. TAX *(continued)*

No deferred tax has been provided on the revaluation surplus of the Group's properties situated in the PRC as the Group presently does not have any intention to dispose of such properties.

5. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).

6. EARNINGS PER SHARE*(a) Basic earnings per share*

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$6,072,000 (2002: HK\$10,545,000), and the weighted average of 1,690,513,249 (2002: 1,302,152,254) ordinary shares in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the net profit attributable to shareholders of HK\$6,072,000 (2002: HK\$10,545,000) and the weighted average number of ordinary shares of 1,807,143,083 (2002: 1,305,559,989) shares during the period after adjusting for the effects of all dilutive potential ordinary shares.

7. INVENTORIES

No inventories of the Group were carried at net realizable value at 30 June 2003 (at 31 December 2002: Nil).

8. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit. The Group allows an average general credit period of 90 days to its business-related customers, except for certain well-established customers, where the terms are extended beyond 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

8. ACCOUNTS RECEIVABLE *(continued)*

An aged analysis of the Group's accounts receivable as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

| | At 30 June 2003 HK\$'000 | At 31 December 2002 HK\$'000 |
|------------------------------|---|------------------------------------|
| 90 days or less | 39,530 | 7,733 |
| 91 days to 180 days | 2,625 | 8,180 |
| 181 days to 365 days | 12,385 | 7,573 |
| Over 365 days | 17,096 | 9,313 |
| | 71,636 | 32,799 |
| Provision for doubtful debts | (18,231) | (16,793) |
| | 53,405 | 16,006 |

9. CASH AND CASH EQUIVALENTS

| | At 30 June 2003 HK\$'000 | At 31 December 2002 HK\$'000 |
|------------------------|---|------------------------------------|
| Cash and bank balances | 85,431 | 8,476 |

10. ACCOUNTS PAYABLE

The aged analysis of the Group's accounts payables as at the balance sheet date, based on invoice payment due date, is as follows:

| | At 30 June 2003 HK\$'000 | At 31 December 2002 HK\$'000 |
|----------------------|---|------------------------------------|
| 90 days or less | 18,709 | 1,473 |
| 91 days to 180 days | – | 2,814 |
| 181 days to 365 days | 2,639 | – |
| Over 365 days | 32 | 24 |
| | 21,380 | 4,311 |

11. SHARE CAPITAL**Shares**

| | Number of shares | Par value HK\$'000 |
|--|-----------------------------|-------------------------------|
| Issued and fully paid: | | |
| At 1 January 2003 | 1,657,143,083 | 16,571 |
| Shares issued and fully paid (<i>Note (i)</i>) | <u>120,000,000</u> | <u>1,200</u> |
| At 30 June 2003 | <u>1,777,143,083</u> | <u>17,771</u> |

Note:

- (i) On 20 September 2002, the Group entered into an agreement with an independent third party (the "Vendor") for the acquisition (the "Acquisition") of the entire issued share capital of North Asia Forest Development Limited ("North Asia"). North Asia is an investment holding company, which holds a 70% equity interest in Hebei Basheng Plant Seeds Co. Limited, a sino-foreign equity joint venture enterprise established in the PRC, which is principally engaged in the nurturing, selling and trading of tree seedlings and seeds in the PRC. The Acquisition was completed on 25 October 2002. As part of the purchase consideration of the Acquisition, the Company issued a convertible note of HK\$30 million to the Vendor and/or its nominee(s) (the "Convertible Note").

During the six months ended 30 June 2003, the holder(s) of the Convertible Note converted HK\$24 million of the outstanding principle amount of the Convertible Note to 120,000,000 ordinary shares of the Company.

Share options

At the balance sheet date, the Company had 130,080,000 share options outstanding under the share option scheme of the Company. No share options were granted or exercised under the share option scheme during the six months ended 30 June 2003.

12. RESERVES

| | Share premium account HK\$'000 | Fixed assets revaluation reserve HK\$'000 | Statutory reserve* HK\$'000 | Contributed surplus# HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|------------------------------|---|--|-----------------------------------|-------------------------------------|-----------------------------------|-------------------|
| At 1 January 2003 | 105,508 | 472 | 322 | 126,883 | (6,682) | 226,503 |
| Issue of shares (Note 11(i)) | 22,800 | - | - | - | - | 22,800 |
| Net profit for the period | - | - | - | - | 6,072 | 6,072 |
| At 30 June 2003 | 128,308 | 472 | 322 | 126,883 | (610) | 255,375 |

* *In accordance with the relevant PRC regulations, subsidiaries of the Company established in the PRC are required to transfer a certain percentage of their profit after tax, if any, to a statutory reserve. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve might be used to offset against the respective accumulated losses of the subsidiaries, if any.*

The contributed surplus of the Group represents the difference between the aggregate of the nominal value of (i) the share capital of the subsidiaries acquired pursuant to the Group reorganisation completed on 5 June 1998; (ii) the debt of approximately HK\$17,039,000 due by the then shareholders to Corasia International (BVI) Limited, the former holding company of the Group, and assumed by the Company by virtue of the same Group reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor; and (iii) the credit arising from the the reduction of the nominal value of each of the issued shares in the capital of the Company from HK\$0.10 each to HK\$0.01 each.

In accordance with the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus in certain circumstances.

13. CONTINGENT LIABILITIES

As at 30 June 2003, the Company provided corporate guarantees for banking facilities granted to a former subsidiary of the Company which were utilised to the extent of HK\$12,147,000 (at 31 December 2002: HK\$15,409,000) at that date.

14. CAPITAL COMMITMENTS

| | At 30 June 2003 HK\$'000 | At 31 December 2002 HK\$'000 |
|--|---|------------------------------------|
| Capital commitments for investments in subsidiaries contracted, but not provided for | — | 13,762 |

15. POST BALANCE SHEET EVENT

On 25 July 2003, the holder of the Convertible Note converted HK\$6 million of the remaining principal amount of the Convertible Note to 30,000,000 ordinary shares of the Company.

After this conversion, all of the Convertible Note outstanding had been converted to ordinary shares of the Company.

16. APPROVAL OF THE INTERIM FINANCIAL REPORT

The interim financial report was approved and authorised for issue by the Board on 18 August 2003.

MANAGEMENT DISCUSSION AND ANALYSIS**Profile**

The Group is principally engaged in the agricultural businesses in the PRC which currently include nurturing, selling and trading of tree seedlings and seeds, and manufacture and sales of aquatics feed products.

Financial results

For the six months ended 30 June 2003, the turnover of the Group amounted to HK\$50,448,000 (2002: HK\$41,594,000), representing an increase of 21% as compared with the corresponding period in 2002. The increase in turnover was attributed to the acquisition of Hebei Basheng Plant Seeds Co. Limited ("Hebei Basheng"), which engaged in nurturing, selling and trading of tree seedlings and seeds in the Northern PRC, at the end of October 2002.

Sales of tree seedlings and seeds of HK\$45,021,000 (2002: Nil) accounted for 89% (2002: Nil) of the total turnover, while sales of aquatics feed products of HK\$5,427,000 (HK\$41,594,000) accounted for the remaining 11% (2002: 100%).