

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Background of the Company

The Company was established in the Cayman Islands on 24th August, 2000. On 15th December, 2000, the Company was listed on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) by the issue of 400,000,000 ordinary shares at an offer price of HK\$1.52 per share.

2. Basis of preparation

The interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (as applicable to condensed interim financial statements) and Appendix 16 of the Listing Rules.

Pursuant to a group reconstruction (the “Reconstruction”, details of which has been set out in the Company’s prospectus dated 5th December, 2000) in preparation for the listing of the Company’s shares on the Hong Kong Stock Exchange, the Company acquired 100% of the share capital of Timor Enterprise Limited, the Group’s former holding company, through shares swap and became the ultimate holding company of the Group on 1st December, 2000. Merger accounting is adopted in the preparation of the Group’s interim financial statements pursuant to SSAP No. 27, “Accounting for Group Reconstructions”, under which the financial statements of the Company and the consolidated financial statements of Timor Enterprise Limited are combined as if the Reconstruction had been carried out from 26th November, 1999, the date of incorporation of Timor Enterprise Limited.

In respect of the unaudited consolidated balance sheet of the Group, the comparative figures as at 30th June, 2000 are the consolidated balance sheet of Timor Enterprise Limited since the Company had not been incorporated at that date. The consolidated balance sheet of Timor Enterprise Limited as at 30 th June, 2000 is prepared based on the acquisition accounting, which includes the balance sheets of Timor Enterprise Limited and the subsidiaries already acquired as at 30th June, 2000.

In respect of the unaudited consolidated profit and loss account of the Group for the six months ended 31st December, 2000, no comparative figures for the corresponding period from 1st July, 1999 to 31st December, 1999 are presented since Timor Enterprise Limited had been dormant from its date of incorporation to 31st December, 1999 and did not acquire all the other subsidiaries until the year 2000.

3. Principal Accounting Policies

The principal accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the accountants’ report as set out in the Company’s prospectus dated 5th December, 2000.

4. Principal Activities of Operations

The Group is principally engaged in the growing and sale of crops, breeding and sale of livestock and sale of ancillary food products. The results of the major business activities for the six months ended 31st December, 2000 are summarised below:

	Growing and sale of crops	Breeding and sale of livestock	Sale of ancillary food products	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover				
Sales of crops	275,671	—	—	275,671
Sales of livestock	—	6,718	—	6,718
Sales of ancillary food products	—	—	2,177	2,177
	<u>275,671</u>	<u>6,718</u>	<u>2,177</u>	<u>284,566</u>
Cost of sales	(66,319)	(1,422)	(1,847)	(69,588)
Gross profit	209,352	5,296	330	214,978
Unallocated items:—				
Other revenues				2,579
Selling and distribution expenses				(20,902)
General and administrative expenses				(8,853)
Net other operating expenses				(60)
Operating profits				187,742
Finance costs				(313)
Profit before taxation				187,429
Taxation				(1,652)
Profit for the period				<u>185,777</u>

The Group's operations are primarily in the People's Republic of China ("PRC") and the Group's direct export sales and gross profit attributable to other geographical areas are both less than 5% of the Group's consolidated total, consequently, no geographical analysis of turnover is presented.

5. Operating profit

Operating profit is stated after charging the following:

**Six months ended
31st December, 2000**
RMB'000

Depreciation of owned fixed assets	1,242
Operating lease expenses	
— land and buildings	7,067
— motor vehicles	242
Staff costs	24,847
Amortisation of deferred development costs	300
Amortisation of long-term prepaid rental	1,721

6. Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

**Six months ended
31st December, 2000**
RMB'000

	<i>Notes</i>	
PRC income tax	(i)	1,652
Hong Kong profits tax	(ii)	—

(i) PRC income tax represents tax charges on the assessable profits of the PRC subsidiaries of the Group.

(ii) No provision for Hong Kong profits tax has been made for the period as there are no estimated assessable profits for the subsidiary operated in Hong Kong during the period.

7. Earnings per share

The calculation of the earnings per share is based on the profit for the period of RMB185,777,000 and the weighted average number of 1,236,956,522 shares in issue during the period.

8. Accounts receivable

The Group granted a credit term of 30 days to the majority of its customers and all the Group's accounts receivable as at 31st December, 2000 are within such credit terms.

9. Bank balances and cash

Included in the bank balances and cash is a bank deposit of HK\$50,000,000 (equivalent to RMB53,070,000) which has been pledged as security for the Group's short term banking facilities amounting to RMB50,000,000 of which RMB30,000,000 was utilized as at 31st December, 2000.

10. Amounts due to related companies

The amounts due to related companies arose from purchases of agricultural materials. Such companies are majority owned by Mr. Kwok Ho, a director and controlling shareholder of the Company. They are trading nature and aged within 3 months.

11. Proposed dividends

The Board of Directors does not recommend a payment of dividends for the six months ended 31st December, 2000.

12. Share capital

		Authorised		
		Ordinary shares of HK\$0.1 each		
	<i>Notes</i>	<i>No. of shares</i>	<i>HK\$'000</i>	<i>RMB'000</i>
As at 1st July, 2000		—	—	—
Upon incorporation of the Company	(a)	3,500,000	350	371
Increase of authorised share capital	(b)	4,996,500,000	499,650	527,144
As at 31st December, 2000		<u>5,000,000,000</u>	<u>500,000</u>	<u>527,515</u>
		Issued and fully paid		
		Ordinary shares of HK\$0.1 each		
	<i>Notes</i>	<i>No. of shares</i>	<i>HK\$'000</i>	<i>RMB'000</i>
As at 1st July, 2000		—	—	—
Issue upon incorporation of the Company	(c)	2	—	—
Acquisition of subsidiaries	(d)	998	—	—
Allotment to then existing shareholders	(e)	1,199,999,000	120,000	127,368
Issue of shares upon listing	(f)	400,000,000	40,000	42,456
As at 31st December, 2000		<u>1,600,000,000</u>	<u>160,000</u>	<u>169,824</u>

- (a) The Company was incorporated on 24th August, 2000 with an authorised share capital of HK\$350,000 divided into 3,500,000 of HK\$0.10 each.
- (b) On 23rd November, 2000, the authorised share capital of the Company was increased from HK\$350,000 to HK\$500,000,000 by the creation of an additional 4,996,500,000 new shares.
- (c) Upon its incorporation, the Company allotted and issued 2 shares at par which were credited as fully paid.
- (d) Pursuant to the Reconstruction, the Company issued 998 shares to acquire 100% shareholdings of Timor Enterprise Limited, the Group's former holding company from its then existing shareholders.
- (e) Pursuant to the Company's written resolution on 29th November, 2000, conditional on the share premium account of the Company being credited as a result of the new issue of shares as set out in note (f) below, a total of HK\$119,999,900 of such amount arising from the public issuing was directed to be capitalised as share capital of the Company and 1,199,999,000 new shares were allotted to the then existing shareholders of the Company.
- (f) The Company issued 400,000,000 ordinary shares of HK\$0.10 each at a subscription price of HK\$1.52 per share upon the listing of the Company's shares on the Hong Kong Stock Exchange. The Group raised approximately HK\$547 million net of related expenses (equivalent to RMB581.5 million) by way of this placing and public offering.

- (g) The share capital in the consolidated balance sheet as at 30th June, 2000 represents the share capital of Timor Enterprise Limited, the former holding company of the Group.

13. Reserves

	Share Premium RMB'000	Capital Reserve RMB'000	Statutory Common Reserve RMB'000	Statutory Welfare Reserve RMB'000	Retained profits RMB'000	Total RMB'000
As at 1st July, 2000	—	63,283	—	566	13,766	77,615
Acquisition of subsidiaries	—	15,044	—	—	—	15,044
Contributed surplus arising from the Reconstruction	—	16,567	—	—	—	16,567
Issue of shares upon listing	602,875	—	—	—	—	602,875
Issuing expenses	(63,843)	—	—	—	—	(63,843)
Capitalisation issue	(127,368)	—	—	—	—	(127,368)
Profit for the period	—	—	—	—	185,777	185,777
Transfer	—	—	501	250	(751)	—
As at 31st December, 2000	<u>411,664</u>	<u>94,894</u>	<u>501</u>	<u>816</u>	<u>198,792</u>	<u>706,667</u>

14. Purchase of subsidiaries

	RMB'000
Net assets acquired	
Fixed assets	366
Deferred development costs	3,100
Long-term prepaid rental	9,789
Inventories	2,663
Accounts receivable and other receivables	15,454
Bank balances and cash	1,242
Accounts payable and other payables	(12,493)
Taxation	(4,971)
	<u>15,150</u>
Capital reserve arising from acquisition	(15,044)
	<u>106</u>
Satisfied by:	
Cash	<u>106</u>

15. **Commitment**(a) *Capital commitments*

At the end of the period, the Group had the following capital commitments:

	As at 31st December, 2000	As at 30th June, 2000
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for		
— Research and development expenditures	18,200	12,000
— Purchase of fixed assets	376,609	191,450
	<u>394,809</u>	<u>203,450</u>
Total	<u>394,809</u>	<u>203,450</u>

(b) *Operating lease commitments*

At the end of the period, the Group had the following operating lease commitments to make payment in the next twelve months which expire as follows:—

	Within one year	In the second to fifth year inclusive	After the fifth year	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31st December, 2000				
Land and buildings	966	1,603	21,210	23,779
Others	56	388	—	444
	<u>1,022</u>	<u>1,991</u>	<u>21,210</u>	<u>24,223</u>
As at 30th June, 2000				
Land and buildings	382	381	424	1,187
Others	—	376	4,466	4,842
	<u>382</u>	<u>757</u>	<u>4,890</u>	<u>6,029</u>

16. **Related party transactions**

The Group entered into the following material transactions with related parties during the period:

	Six months ended 31st December, 2000 RMB'000
Fujian Chaoda Agricultural Produce Trading Company Limited	
— Purchase of fertilisers	21,364
— Purchase of plant growth regulators	749
Beijing Chaoda Yingjun Bio-tech Company Limited	
— Purchase of seeds	270
(i) The above related parties are companies majority owned by Mr. Kwok Ho, a director and Controlling Shareholder of the Company.	
(ii) The directors are of the opinion that these transactions were conducted on normal commercial terms in the normal course of business.	