NOTES TO THE FINANCIAL STATEMENTS

1. GROUP RECONSTRUCTION

The Company was incorporated in the Cayman Islands on 24th August 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands.

On 1st December 2000, pursuant to a group reconstruction (the "Reconstruction") in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Timor Enterprise Limited ("Timor", the Group's former ultimate holding company) through a share swap arrangement and became the holding company of Timor and its subsidiaries. Details of the Reconstruction have been set out in the Company's prospectus dated 5th December 2000.

The Company's shares were listed on the Stock Exchange on 15th December 2000.

2. BASIS OF PREPARATION

The financial statements have been prepared under historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants.

Merger accounting is adopted in the preparation of the Group's consolidated 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 are combined as if the Reconstruction has been carried out from 26th November 1999, the date of incorporation of Timor.

The Company was incorporated on 24th August 2000. Accordingly, the comparative figures of the Group's consolidated financial statements for the period ended 30th June 2000 comprise only the figures of the consolidated financial statements of Timor.

The consolidated financial statements of Timor were prepared based on acquisition accounting. Under this basis, Timor's consolidated profit and loss account, cash flow statement and statement of recognised gains and losses for the period ended 30th June 2000 include the results, cash flows and recognised gains and losses of Timor and its subsidiaries for the period from 26th November 1999 (the date of incorporation of Timor) or the dates of acquisition of the subsidiaries to 30th June 2000. In respect of the consolidated balance sheet of the Group as at 30th June 2000, it comprises the balance sheets of Timor and its subsidiaries already acquired as at 30th June 2000.

The excess of the share capital (including premium) of Timor over the par value of the Company's shares issued for the acquisition of Timor is recognised as contributed surplus under shareholders' equity in the consolidated balance sheet.

No balance sheet of the Company as at 30th June 2000 is presented in the financial statements as the Company had not been incorporated on that date.

3. PRINCIPAL ACCOUNTING POLICIES

(a) **Consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30th June. The Reconstruction referred to in note 1 above has been accounted for by using merger accounting. Apart from the Reconstruction, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. Capital reserve arising from consolidation represents the shortfall of the purchase consideration over the fair values ascribed to the net assets of the acquired subsidiaries at the date of acquisition and is taken directly to reserves in the year of acquisition.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(b) **Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) **Revenue recognition**

Sales of crops, livestock and ancillary food products are recognised on the transfer of ownership, which coincides with the time of delivery of the products.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(d) **Finance costs**

All finance costs are charged to the profit and loss account in the year in which they are incurred.

(e) **Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or receivable in the foreseeable future.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) **Research and development costs**

Research costs are charged to the profit and loss account in the year in which they are incurred.

Development costs are expensed as incurred, except where a specific project is undertaken, the technical feasibility of the product under development has been demonstrated, costs are identifiable and a market exists for the product such that the development costs are expected to be recoverable from related future economic benefits. Such development costs are recognised as deferred development costs in the balance sheet and amortised on a straight-line basis over a period of not more than 5 years from the date the product is available for sale.

(g) **Retirement benefit costs**

The Group's contributions to a defined contribution retirement scheme are expensed as incurred.

The Group's contributions to the Hong Kong Mandatory Provident Fund ("MPF") Scheme are expensed as incurred.

The assets of the schemes are held separately from those of the Group in independently administered funds.

(h) **Fixed assets**

Fixed assets are stated at cost less accumulated depreciation. Depreciation of fixed assets is calculated to write off their cost on a straight line basis over their expected useful lives. The principal annual rates used for this purpose are:-

Leasehold improvements	20% to 50%
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Farmland infrastructure	5% to 67%*
Orchard	5% to 10%
Intermediate life plants	20%

* *With the exception of certain immaterial farmland infrastructure items which were subject to annual depreciation rate of 67% last year and had been disposed of during the current year, the remaining items are subject to annual depreciation rate of 5% to 20%.*

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) **Fixed assets** *(Continued)*

Intermediate life plants are perennial plants which have growth cycles more than one year.

Cultivation costs during the development period of the orchard and intermediate life plants are capitalised until the commencement of commercial production following which the accumulated costs are depreciated over their estimated useful lives.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the profit and loss account.

(i) **Construction-in-progress**

Construction-in-progress is stated at cost. Cost comprises all direct and indirect costs of construction. Construction-in-progress is transferred to fixed assets and depreciation commences when construction is completed.

(j) **Operating leases**

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Operating lease payments are charged to operating profit on a straight-line basis over the period of the respective leases.

(k) **Long-term prepaid rentals**

Long-term prepaid rentals under operating leases are recognised at cost and amortised on a straight line basis over the period of the respective leases.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) **Inventories**

The Group's inventories, comprising growing crops, livestock, agricultural materials and ancillary food products, are stated at the lower of cost or estimated net realisable value.

Costs of growing crops, including seeds, fertilisers, pesticides, plant growth regulators, labour and indirect overheads, are accumulated until the time of harvest. Indirect overheads common to various products, including rentals of farmland, depreciation of farmland infrastructure, land preparation, irrigation and indirect labour, are allocated to products based on production areas.

The costs of the Group's livestock, being goats, are calculated on a weighted average basis and comprises initial purchase cost and breeding cost.

Costs of agricultural materials and ancillary food products are stated at their purchase costs calculated on a first-in, first-out basis.

Estimated net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(m) **Accounts receivable**

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(n) **Translation of foreign currencies**

Foreign currency transactions are translated into Renminbi at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are incorporated into the financial statements by translating foreign currencies into Renminbi at exchange rates prevailing at the balance sheet date. Exchange differences arising therefrom are included in the operating results.

4. TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in the growing and sale of crops, breeding and sale of livestock and sale of ancillary food products. Revenues recognised during the year/period are as follows:

	2001	Period from 26th November 1999 to 30th June 2000
	RMB'000	RMB'000
Turnover		
Sales of crops	705,721	54,098
Sales of livestock	15,948	—
Sales of ancillary food products	3,877	982
	725,546	55,080
Other revenue		
Interest income	10,997	86
Total revenues	736,543	55,166

4. TURNOVER, REVENUES AND SEGMENT INFORMATION

(Continued)

The results of the major business activities for the year ended 30th June 2001 and period ended 30th June 2000 are summarised below:

(i) **Year ended 30th June 2001**

	Growing and sales of crops 2001	Breeding and sales of livestock 2001	Sales of ancillary food products 2001	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	705,721	15,948	3,877	725,546
Cost of sales	(170,538)	(6,440)	(2,897)	(179,875)
Gross profit	535,183	9,508	980	545,671
Unallocated items:-				
Other revenue				10,997
Selling and distribution expenses				(61,325)
General and administrative expenses				(46,326)
Other operating expenses				(4,985)
Operating profit				444,032
Finance cost				(1,588)
Profit before taxation				442,444
Taxation				(1,623)
Profit attributable to shareholders				440,821

4. TURNOVER, REVENUES AND SEGMENT INFORMATION

(Continued)

(ii) **Period from 26th November 1999 to 30th June 2000**

	Growing and sales of crops 2000	Sales of ancillary food products 2000	Total
	RMB'000	RMB'000	RMB'000
Turnover	54,098	982	55,080
Cost of sales	(13,178)	(835)	(14,013)
Gross profit	40,920	147	41,067
Unallocated items:-			
Other revenue			86
Selling and distribution expenses			(3,943)
General and administrative expenses			(2,825)
Other operating expenses			(53)
Operating profit			34,332
Finance cost			—
Profit before taxation			34,332
Taxation			—
Profit attributable to shareholders			34,332

(iii) 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 for the year ended 30 June 2001 and the period ended 30 June 2000. Consequently, no geographical segment analysis is presented.

5. OPERATING PROFIT

Operating profit is stated after charging the following:

	2001	Period from 26th November 1999 to 30th June 2000
	RMB'000	RMB'000
Auditors' remuneration	2,233	—
Depreciation of owned fixed assets		
(net of amount capitalised in inventories)	4,325	1,426
Loss on disposal of fixed assets	1,620	—
Operating lease expenses		
- land and buildings	21,780	1,537
- motor vehicles	388	179
Staff costs	54,916	5,274
Retirement benefit costs	297	—
Research expenses incurred	21,350	1,550
Amortisation of deferred development costs	1,007	584
Amortisation of long-term prepaid rentals		
(net of amount capitalised in inventories)	3,507	574

6. FINANCE COST

This represents interest expense on short-term bank loans repayable within one year.