

## ***Notes to the Condensed Financial Statements***

### **1. Principal accounting policies**

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants and should be read in conjunction with the 2001 audited annual financial statements.

The accounting policies and methods of calculation used in the preparation of the interim financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2001 except that the Group has adopted the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2002:

|                   |                                      |
|-------------------|--------------------------------------|
| SSAP 1 (revised)  | Presentation of financial statements |
| SSAP 11 (revised) | Foreign currency translation         |
| SSAP 15 (revised) | Cash flow statements                 |
| SSAP 34           | Employee benefits                    |

The adoption of the above new or revised accounting standards has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no significant impact to the financial statements for the current or prior accounting periods except that certain comparatives presented have been reclassified to conform with the new disclosure requirements.

## 2. Segmental information

An analysis of the Group's turnover and contribution to loss from operating activities by business segments and geographical segments are as follows:

|  | Turnover                                     |                  | Contribution to loss<br>from operating activities |                 |
|--|--|------------------|---|-----------------|
|  | For the six months ended 30 June (Unaudited) |                  |   |                 |
|  | 2002   | 2001             | 2002  | 2001            |
|  | HK\$'000                                     | HK\$'000         | HK\$'000  | HK\$'000        |
| BY BUSINESS SEGMENTS                     |  |                  |   |                 |
| Trading of chemical fertilizers          | 64,271                                       | 555,436          | (1,913)   | 7,103           |
| Trading of agricultural products         | 6,248  | 537,269          | (242)   | (4,336)         |
| Property investment                      | 297  | 1,300            | 266   | 1,300           |
| Corporate and others                     | -  | -                | (5,867)   | (5,660)         |
|  | <u>70,816</u>                                | <u>1,094,005</u> | <u>(7,756)</u>                                    | <u>(1,593)</u>  |
| Interest income and<br>unallocated gains |  |                  | 3,534   | 10,092          |
| Unallocated expenses                     |  |                  | (14,288)  | (46,656)        |
| Loss from operating activities           |  |                  | <u>(18,510)</u>                                   | <u>(38,157)</u> |

|  | Turnover                                     |                  | Contribution to loss<br>from operating activities |                 |
|--|--|------------------|---|-----------------|
|  | For the six months ended 30 June (Unaudited) |                  |   |                 |
|  | 2002   | 2001             | 2002  | 2001            |
|  | HK\$'000                                     | HK\$'000         | HK\$'000  | HK\$'000        |
| BY GEOGRAPHICAL SEGMENTS                 |  |                  |   |                 |
| The People's Republic of China:          |  |                  |   |                 |
| Hong Kong                                | 1,336  | 1,300            | (5,681)   | (4,360)         |
| Elsewhere                                | 3,983  | 1,006,913        | (218)   | 6,931           |
| United States                            | 64,271                                       | –                | (1,772)   | –               |
| Others                                   | 1,226  | 85,792           | (85)  | (4,164)         |
|  | <u>70,816</u>                                | <u>1,094,005</u> | <u>(7,756)</u>                                    | <u>(1,593)</u>  |
| Interest income and<br>unallocated gains |  |                  | 3,534   | 10,092          |
| Unallocated expenses                     |  |                  | (14,288)  | (46,656)        |
| Loss from operating activities           |  |                  | <u>(18,510)</u>                                   | <u>(38,157)</u> |

### 3. Loss from operating activities

The Group's loss from operating activities is arrived at after charging/(crediting):

|  | For the six months<br>ended 30 June |                                 |
|--|-------------------------------------|---------------------------------|
|  | 2002<br>(Unaudited)<br>HK\$'000     | 2001<br>(Unaudited)<br>HK\$'000 |
| Depreciation   | 378                                 | 557                             |
| Operating lease rentals in respect of land & buildings | 1,289                               | 824                             |
| Gain on disposal of marketable securities              | (1,072)                             | (557)                           |
| Loss on disposal of fixed assets                       | 101                                 | –                               |
|  | <u>101</u>                          | <u>–</u>                        |

4. Finance costs

|  | For the six months<br>ended 30 June |                                 |
|--|-------------------------------------|---------------------------------|
|  | 2002<br>(Unaudited)<br>HK\$'000     | 2001<br>(Unaudited)<br>HK\$'000 |
| Interest expenses on bank loans, bank overdrafts and other loans repayable within five years | 12                                  | 3,091                           |
|  | <u>12</u>                           | <u>3,091</u>                    |
|  | <u><u>12</u></u>                    | <u><u>3,091</u></u>             |

5. Tax

|                           | For the six months<br>ended 30 June |                                 |
|---------------------------|-------------------------------------|---------------------------------|
|                           | 2002<br>(Unaudited)<br>HK\$'000     | 2001<br>(Unaudited)<br>HK\$'000 |
| Group                     |                                     |                                 |
| Hong Kong profits tax     | –                                   | 89                              |
| PRC income tax            | –                                   | 5                               |
|                           | <u>–</u>                            | <u>94</u>                       |
| An associate              |                                     |                                 |
| PRC income tax            | 39                                  | –                               |
|                           | <u>39</u>                           | <u>–</u>                        |
| Tax charge for the period | <u><u>39</u></u>                    | <u><u>94</u></u>                |

Hong Kong profits tax has been provided at the rate of 16% (2001:16%) on the estimated 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 places in which the Group operates, based on existing legislation, practices and interpretations in respect thereof.

## 6. Interim dividend

The directors do not recommend the payment of an interim dividend for the six months period ended 30 June 2002 (2001: HK\$Nil).

## 7. Loss per share

The calculation of basic loss per share for the period is based on the net loss attributable to shareholders of HK\$19,405,000 (2001: HK\$47,105,000) and 564,433,557 ordinary shares (2001: 564,433,557 ordinary shares) in issue during the period.

No diluted loss per share for the period ended 30 June 2002 has been presented because the Company's share options did not have a dilutive effect during the period.

## 8. Trade and bills receivables

The ageing analysis of trade and bills receivables is as follows:

|                | <b>30 June<br/>2002<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2001<br>(Audited)<br>HK\$'000 |
|----------------|--|--|
| Within 1 month | <b>3,248</b>   | –  |
| 4 – 6 months   | –  | 2,297  |
| Over 1 year    | –  | 76   |
|                | <b><u>3,248</u></b>                                  | <b><u>2,373</u></b>                          |

The Group's trade receivables are normally invoiced with credit terms of 0-90 days from date of invoice.

## 9. Reserves

|                         | Share<br>premium<br>account<br>(Unaudited)<br>HK\$'000 | Capital<br>reserve<br>(Unaudited)<br>HK\$'000 | Expansion<br>fund<br>(Unaudited)<br>HK\$'000 | Exchange<br>fluctuation<br>reserve<br>(Unaudited)<br>HK\$'000 | Reserve<br>fund<br>(Unaudited)<br>HK\$'000 | Accumulated<br>losses<br>(Unaudited)<br>HK\$'000 | Total<br>(Unaudited)<br>HK\$'000 |
|-------------------------|--|---|--|---|--|--|----------------------------------|
| At 1 January 2002       | 108,663  | 67,655  | 173  | 3,003   | 203  | (35,769)   | 143,928                          |
| Net loss for the period | –  | –   | –  | –   | –  | (19,405)   | (19,405)                         |
| At 30 June 2002         | <b><u>108,663</u></b>                                  | <b><u>67,655</u></b>                          | <b><u>173</u></b>                            | <b><u>3,003</u></b>   | <b><u>203</u></b>                          | <b><u>(55,174)</u></b>                           | <b><u>124,523</u></b>            |

## 10. Commitments

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

(a) Capital commitments

|  | <b>30 June<br/>2002<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2001<br>(Audited)<br>HK\$'000 |
|--|--|--|
| Capital commitments:   |  |  |
| Authorised, but not contracted for in respect of capital contributions to a subsidiary | <u>          —</u>                                   | <u>          1,402</u>                       |

In addition, the Group's share of capital commitments of jointly-controlled entities not included in the above are as follows:

|                                  | <b>30 June<br/>2002<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2001<br>(Audited)<br>HK\$'000 |
|----------------------------------|--|--|
| Contracted, but not provided for | <u>          5,484</u>                               | <u>          5,484</u>                       |

(b) Commitments under operating leases

As lessor

The Group leases its investment property and golf club membership under operating lease arrangements, with leases negotiated for terms ranging from one to two years for investment property and one year for golf club membership. The terms of the leases generally also require the lessees to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

|   | <b>30 June<br/>2002<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2001<br>(Audited)<br>HK\$'000 |
|---|--|--|
| Within one year                         | <u>          668</u>                                 | <u>          278</u>                         |
| In the second to fifth years, inclusive | <u>          600</u>                                 | <u>          16</u>                          |
|   | <u>          1,268</u>                               | <u>          294</u>                         |

As lessee

The Group leases certain of its office properties and golf club membership under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years, and those for golf club membership for a terms of one year.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

|   | <b>30 June<br/>2002<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2001<br>(Audited)<br>HK\$'000 |
|---|--|--|
| Within one year                         | <b>2,579</b>   | 1,714  |
| In the second to fifth years, inclusive | <b>775</b>   | 1,012  |
|   | <b><u>3,354</u></b>                                  | <u>2,726</u>                                 |

## 11. Related party transactions

|  |              | <b>For the six months<br/>ended 30 June</b> |                                 |
|--|--------------|---|---------------------------------|
|  |              | <b>2002<br/>(Unaudited)<br/>HK\$'000</b>    | 2001<br>(Unaudited)<br>HK\$'000 |
|  | <i>Notes</i> |   |                                 |
| Loan interest income from<br>the Group's jointly-controlled entities | <i>(i)</i>   | –   | 1,152                           |
| Loan interest expenses to the<br>Group's jointly-controlled entities | <i>(ii)</i>  | –   | 248                             |
| Loan interest income from an associate                               | <i>(iii)</i> | <b>120</b>                                  | 108                             |
| Rental expenses to companies<br>controlled by directors              | <i>(iv)</i>  | <b>498</b>                                  | 738                             |

*Notes:*

- (i) Loan interest income was charged to the Group's jointly-controlled entities on loans advanced to those jointly-controlled entities during the period at interest rates ranging from 2% to 7.62% per annum.
- (ii) Loan interest expenses was charged by the Group's jointly-controlled entity on a loan advanced to the Group during the period at a rate of 2.875% per annum.
- (iii) Loan interest income was charged to an associate on loans advanced during the period at a rate of 7.344% per annum.
- (iv) Rental expenses for a director was paid to a company controlled by him. The monthly rental of HK\$83,000 was calculated by reference to open market rental.

## **12. Approval of the interim financial report**

The condensed interim financial statements were approved and authorised for issue by the Board of the Company on 9 September 2002.

## ***Management Discussion and Analysis***

### ***Business Review and Prospects***

As the business environment for bulk commodity trading remained poor, the Group's import and export trading business were severely affected, causing the turnover reduced to HK\$70,816,000. During 2002, the Group has been gradually shifting its resources and focus towards its more promising activities such as retail business. Meanwhile, the Group also commenced its plan to develop micro-bio fertilizers for agricultural use. To further improve its operating results, the Group has made tremendous efforts to control its operating cost and reduced its operating expenses - by as much as 40% as compared to last year. A significantly smaller amount was also seen in the provision and write-off compared to previous period.

#### *Retail*

The Group's retail business in Shanghai area has enjoyed a high rate of expansion, and rapidly approaching maturity. Assuming no unexpected incidents occurred, hypermarket sales for the year is expected to reach RMB2.5 billion, and operating profit is expected to be doubled as compared to last year. The Group's hypermarket operation is becoming one of the leading operators among the peer group in the region. The Group's retail activities have also expanded to areas outside Shanghai. Currently, feasibility study is