

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2004

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited and Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

In preparing the condensed financial statements, the directors have given careful consideration to the future liquidity of the Group in light of the Group’s net current liabilities of HK\$171,030,000 at 30 June 2004. The directors are satisfied that provided further equity and long term loan finance can be obtained, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities. The accounting policies adopted are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 December 2003.

3. TURNOVER AND SEGMENT INFORMATION

The Group's turnover and contribution to loss before taxation analysed by business segment are as follows:

BUSINESS SEGMENTS

For the six months ended 30 June 2004

	Production and sales of fertilizers HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
Turnover	<u>2,292</u>	<u>4,044</u>	<u>552</u>	<u>6,888</u>
Segment results	215	3,162	(303)	3,074
Amortisation of goodwill	(645)	-	-	(645)
Unallocated corporate overheads				<u>(2,397)</u>
Profit from operations				32
Finance costs				<u>(1,382)</u>
Loss before taxation				<u><u>(1,350)</u></u>

For the six months ended 30 June 2003

	Production and sales of fertilizers HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
Turnover	<u>-</u>	<u>3,651</u>	<u>13,476</u>	<u>17,127</u>
Segment results	-	(25,535)	(40,041)	(65,576)
Unallocated corporate overheads				<u>(4,612)</u>
Loss from operations				(70,188)
Finance costs				<u>(6,686)</u>
Loss before taxation				<u><u>(76,874)</u></u>

4. PROFIT (LOSS) FROM OPERATIONS

Profit (loss) from operations has been arrived at after charging depreciation of HK\$107,000 (six months ended 30.6.2003: HK\$80,000) in respect of property, plant and equipment.

5. FINANCE COSTS

	Six months ended	
	30.6.2004 HK\$ '000 (unaudited)	30.6.2003 HK\$ '000 (unaudited)
Interest on:		
Bank borrowings	1,199	2,323
Finance lease	–	4
Other loans wholly repayable within five years	110	4,359
Others	73	–
	<u>1,382</u>	<u>6,686</u>

6. INCOME TAX CREDIT

	Six months ended	
	30.6.2004 HK\$ '000 (unaudited)	30.6.2003 HK\$ '000 (unaudited)
The tax credit for the period comprises:		
Deferred tax		
Current period	–	6,548
Attributable to a change in tax rate in Hong Kong	–	(810)
	<u>–</u>	<u>5,738</u>

No provision for Hong Kong Profits Tax has been made as the companies comprising the Group do not have any assessable profit for both periods.

No provision for PRC income tax has been made in the financial statements as the assessable profit is wholly absorbed by tax losses brought forward.

7. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following data:

	Six months ended	
	30.6.2004 HK\$'000 (unaudited)	30.6.2003 HK\$'000 (unaudited)
Earnings		
Loss for the purposes of basic and diluted loss per share	<u>(1,447)</u>	<u>(71,136)</u>
	'000	'000
Number of shares		
Weighted average number of shares	<u>203,451</u>	<u>137,991</u>

The diluted loss per share for the current period has not been presented as there were no potential ordinary shares in existence during the current period.

The computation of diluted loss per share for the prior period did not assume the exercise of the outstanding warrants since their exercises would reduce the loss per share.

8. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the current period, the Group purchased property, plant and equipment of HK\$8,834,000 through acquisition of subsidiaries.

The directors have considered the carrying amount of the investment properties carried at revalued amount and have estimated that the carrying amount does not differ significantly from the market value of investment properties at 30 June 2004.

9. GOODWILL

	<i>HK\$'000</i>
At 1 January 2004	–
Arising on acquisition of subsidiaries	25,820
Amortisation for the period	<u>(645)</u>
At 30 June 2004	<u><u>25,175</u></u>

Goodwill on acquisition of subsidiaries is amortised on a straight-line basis over the economic useful life of 10 years.

10. DEPOSIT MADE FOR ACQUISITION OF AN INVESTEE COMPANY

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Refundable deposit paid for the acquisition of a 18% interest in an investee company	<u><u>3,000</u></u>	<u><u>–</u></u>

During the current period, the Group entered into a conditional agreement for the acquisition of a 18% interest in the registered capital of Hunan Zhonrong Real Estate Development Co. Ltd. (“Hunan Zhonrong”) through the contribution of additional registered capital of HK\$3,000,000 to Hunan Zhonrong. Hunan Zhonrong is established in the PRC and principally engaged in property development. The acquisition was completed in July 2004.

11. INVESTMENTS IN SECURITIES

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Other investments: Equity securities listed in Hong Kong, at market value	<u><u>14,277</u></u>	<u><u>14,695</u></u>

The other investments represent a 1.11% (31.12.2003: 1.33%) interest in China Gas Holdings Limited, which is principally engaged in investing in natural gas/energy projects, property investment, financing and securities investment.

12. TRADE AND OTHER RECEIVABLES

Rentals receivable from tenants are payable on presentation of invoices. The Group allows an average credit period of 30 days to other trade customers.

The following is an aged analysis of trade and other receivables of the Group at the balance sheet date:

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
0 – 60 days	352	204
61 – 90 days	73	26
Over 90 days	312	90
	<u>737</u>	<u>320</u>

13. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables of the Group at the balance sheet date:

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
0 – 60 days	813	1,463
61 – 90 days	296	575
Over 90 days	8,078	6,407
	<u>9,187</u>	<u>8,445</u>

14. CONSIDERATION PAYABLE FOR ACQUISITION OF SUBSIDIARIES

The amount represents the outstanding consideration for the acquisition of a 51% interest in Lucky Green Limited and its subsidiary (note 19), which bears interest at 1% per annum and is payable in or before March 2005.

15. BANK AND OTHER BORROWINGS

During the current period, the Group acquired a bank loan of HK\$943,000 from acquisition of subsidiaries and repaid bank loan and other short-term borrowings totalling HK\$7,533,000.

In addition, the Group obtained an unsecured and interest-free loan of HK\$3,000,000 from Mr. Liu Ming Hui, a director of the Company, during the current period.

16. SHARE CAPITAL

	Number of shares '000	Nominal amount HK\$ '000
Ordinary shares of HK\$0.005 each		
Issued and fully paid:		
At 1 January 2004	165,589	828
Issue of shares	<u>72,800</u>	<u>364</u>
At 30 June 2004	<u><u>238,389</u></u>	<u><u>1,192</u></u>

17. RESERVES

	Share premium HK\$ '000	Accumulated losses HK\$ '000	Total HK\$ '000
At 1 January 2003	323,342	(809,958)	(486,616)
Arising from the reduction of nominal value of share capital	–	689,266	689,266
Net loss for the period	<u>–</u>	<u>(71,136)</u>	<u>(71,136)</u>
At 30 June 2003	323,342	(191,828)	131,514
Issue of ordinary shares	5,961	–	5,961
Net loss for the period	<u>–</u>	<u>(36,655)</u>	<u>(36,655)</u>
At 31 December 2003	329,303	(228,483)	100,820
Issue of ordinary shares	18,788	–	18,788
Net loss for the period	<u>–</u>	<u>(1,447)</u>	<u>(1,447)</u>
At 30 June 2004	<u><u>348,091</u></u>	<u><u>(229,930)</u></u>	<u><u>118,161</u></u>

18. DEFERRED TAX LIABILITY

	HK\$ '000
At 1 January 2004	–
Arising from business combination on acquisition of subsidiaries in respect of land and building	<u>770</u>
At 30 June 2004	<u><u>770</u></u>

19. ACQUISITION OF SUBSIDIARIES

In March 2004, the Group acquired a 51% interest in Lucky Green Limited, which holds a 100% interest in the registered capital of Zhuhai S.E.Z. Rui Nong Plant Protection Technology Co. Ltd. ("Zhuhai Rui Nong"), and its shareholder's loans for a cash consideration of HK\$30,000,000. Zhuhai Rui Nong is established in the PRC and is principally engaged in the production of fertilizers. This transaction has been accounted for using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	<i>HK\$'000</i>
Net assets acquired	866
Goodwill arising on acquisition	25,820
Acquisition of shareholder's loans	3,314
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Consideration	30,000
<i>Less: deferred consideration (note 14)</i>	(29,000)
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Cash consideration	1,000
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Net cash outflow arising on acquisition	
Cash consideration paid	(1,000)
Bank balances and cash acquired	334
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	<u>(666)</u>

The subsidiaries acquired during the current period contributed HK\$2,292,000 to the Group's turnover and derived a profit from operations of HK\$215,000.

20. PLEDGED ASSETS

- (a) All the Group's investment properties and the issued shares of a subsidiary of the Company are pledged and the rental income in respect of the investment properties under operating leases are assigned to a bank against a bank loan granted to the Group.
- (b) All the Group's other investments are pledged against margin facilities granted to the Group.
- (c) Property, plant and equipment of HK\$7,803,000 (31.12.2003: nil) are pledged against a bank loan granted to the Group.

21. CAPITAL COMMITMENT

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Capital expenditure in respect of the acquisition of land use right contracted for but not provided for in the financial statements	<u>311</u>	<u>-</u>