

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The Interim Financial Statements have been prepared in accordance with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") issued by The Stock Exchange of Hong Kong Limited (the "HKSE") and with Hong Kong Accounting Standard (the "HKAS") No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The accounting policies and basis of preparation used in the preparation of unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of Group's annual financial statements for the year ended 30 April 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and HKASs (collectively referred to as the "new HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005.

These condensed consolidated interim financial statements have been prepared in accordance with those HKFRSs and interpretations issued and effective as at the time of preparing this report. The comparative figures have been amended as required and where necessary, in accordance with the relevant requirements.

2. Effect of adoption new/revised HKFRSs and HKASs

The HKICPA has issued a number of new HKFRSs and HKASs and Interpretations, which are effective for the accounting periods commencing on or after 1 January 2005. The Group has adopted the following HKFRSs and HKASs issued up to 31 October 2005 which are pertinent to its operations and relevant to these condensed consolidated interim financial statements.

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors
HKAS 10	Events after the balance sheet date
HKAS 12	Income taxes
HKAS 14	Segment reporting
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 21	The effects of changes in foreign exchange rates
HKAS 23	Borrowing costs
HKAS 24	Related party disclosures
HKAS 27	Consolidated and separate financial statements
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 33	Earnings per share
HKAS 34	Interim financial reporting
HKAS 36	Impairment of assets
HKAS 37	Provisions, contingent liabilities and contingent assets
HKAS 38	Intangible assets
HKAS 39	Financial instruments: Recognition and measurement
HKAS 41	Agriculture
HKFRS 3	Business combinations
HKFRS 5	Non-current assets held for sale and discontinued operations



The adoption of these new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 32, 33, 34, 36, 37, 38, 39, 41 and HKFRS 5 did not result in substantial changes to the accounting policies of the Group and the methods of computation in the Group's condensed consolidated interim financial statements.

The following is a summary of material changes in principal accounting policies or presentation of the financial statements as a result of the adoption of the new HKFRSs and HKASs:

(i) *HKAS 17 "Leases"*

The principal effect of adoption of HKAS 17 is in relation to the classification of interest in leasehold land. HKAS 17 requires the classification of interest in leasehold land as an operating lease if the title of the land is not passed to the Group by the end of the lease term. Prepaid land premiums for land lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term. The adoption of HKAS 17 results in a change in reclassification of leasehold land from property, plant and equipment to lease premium for land and restatement of certain amount for leasehold land from revalued amount to original cost of payments amortised over the lease term. The adoption resulted in the elimination of revaluation surplus of land of RMB1,807,000 and increase of retained earnings of RMB125,000 at the beginning of the period. Comparative figures have also been restated to conform to the accounting policies.

(ii) *HKFRS 3 "Business combination"*

The adoption of HKFRS 3 results in a change in the accounting policy for negative goodwill. In accordance with the transitional provision of HKFRS 3, the Group has derecognized the previously recognized negative goodwill with a corresponding adjustment to the opening balance of the retained profits. Before the adoption, the negative goodwill was recognised in the income statement over the remaining weighted average useful life at those assets acquired. The adoption of HKFRS 3 has resulted in an increase in retained earnings at the beginning of the period by RMB6,318,000. Comparative figures have not been restated.



3. Segmental Reporting

(a) Business segment

The Group is principally engaged in the planting and sales of agricultural products. An analysis of the Group's turnover and gross profit by products categories for the six months ended 31 October 2005 and 2004 are as follows:

	Six months ended 31 October	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Turnover		
Fresh produces	102,201	103,738
Processed fruit and vegetables	86,528	69,753
Beverage	24,039	4,407
Rice	49,707	–
	<u>262,475</u>	<u>177,898</u>
Gross profit		
Fresh produces	46,983	48,108
Processed fruit and vegetables	45,019	38,846
Beverage	12,104	2,196
Rice	13,577	–
	<u>117,683</u>	<u>89,150</u>

(b) Geographical segment

An analysis of the Group's result of operation by geographical location for the six months ended 31 October 2005 and 2004 are as follows:

	Six months ended 31 October	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Turnover		
Japan	108,050	88,539
Mainland China	146,273	83,902
Other Asian countries	7,748	5,457
Australia	404	–
	<u>262,475</u>	<u>177,898</u>
Gross profit		
Japan	59,279	50,787
Mainland China	54,527	35,001
Other Asian countries	3,644	3,362
Australia	233	–
	<u>117,683</u>	<u>89,150</u>

No analysis of assets and additions to property, plant and equipment by geographical location is presented as over 99% of the Group's assets in terms of net book value at each respective balance sheet dates are located in the People's Republic of China (the "PRC").



4. Operating profits

Operating profits are stated after crediting and charging the following:

	Six months ended 31 October	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Crediting		
Amortisation of negative goodwill	–	226
Interest income	1,636	682
Rental income	10	17
Exchange gain	–	83
Gain arising from changes in fair value less estimates point-of-sale costs of biological assets	22,775	13,940
Charging		
Auditors' remuneration	–	–
Depreciation of owned property, plant and equipment	10,132	4,603
Staff costs (including directors emoluments)	36,108	24,368
Research and development expenses	1,948	1,480
Amortisation of long-term prepaid rental included in cost of goods sold (net of amount capitalised in inventory)	10,821	8,234
Loss on disposal of property, plant and equipment	373	–
Loss on disposal of biological assets	822	–
Exchange loss	2,018	–

5. Taxation

	Six months ended 31 October	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Hong Kong profits tax	–	–
PRC enterprise income tax	–	20,197
Deferred taxation	–	20,197
	–	347
	–	20,544

(a) *Hong Kong profits tax*

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in or derived from Hong Kong.



(b) *PRC enterprise income tax*

Zhonglu (Fujian) Agriculture Comprehensive Development Company Limited ("Zhonglu"), the principal wholly owned subsidiary is subject to PRC enterprise income tax at a rate of 24%. However, during the year ended 30 April 2005, Zhonglu was awarded as "State-Level Agricultural Leading Enterprise" of the nation by the central government of the PRC. According to the circular Nong Jing Fa [2004] No.5, domestic PRC Stated-Level Agricultural Leading Enterprises are entitled to certain tax benefits including full exemption of PRC enterprise income tax. Other PRC subsidiaries incorporated during 2004 and 2005 would enjoy exemption from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction in state income tax for the next three years.

6. Dividends

At a Board meeting held on 20 January 2006, the Board has resolved to declare an interim dividend of RMB0.0395 (equivalent to HK\$0.038) per share for the six months ended 31 October 2005 (2004: RMB0.0297).

7. Earnings per share

The calculation of the basic earnings per share is based on the Group's profits for the period of RMB106,425,000 (2004: RMB62,083,000) and the number of shares of 727,500,000 (2004: 622,500,000) in issue during the period.

Diluted earnings per share is not presented as there were no dilutive potential shares existed during the period.

8. Property, plant and equipment

During the period, approximately RMB114,989,000 (2004: RMB56,841,000) were spent on acquisition of property, plant and equipment.

9. Accounts receivables

Credit terms granted by the Group to customers are generally less than one month.

Included in accounts receivables are balances with the following aging analysis:

	As at 31 October 2005 RMB'000	As at 30 April 2005 RMB'000
Within 1 month	9,980	9,118
Over 1 month but less than 3 months	367	–
Over 3 months but less than 6 months	43	63
Over 6 months but within 1 year	59	21
Over 1 year	10	–
	<hr/> 10,459 <hr/>	<hr/> 9,202 <hr/>



10. Bank balances and cash

	As at 31 October 2005 RMB'000	As at 30 April 2005 RMB'000
Cash on hand	2,313	1,296
Cash at banks	<u>484,425</u>	<u>530,495</u>
	<u>486,738</u>	<u>531,791</u>

11. Accounts payables and accrued expenses

Accounts payables and accrued expenses consist of:

	As at 31 October 2005 RMB'000	As at 30 April 2005 RMB'000
Payable on property, plant and equipment	4,605	7,598
Payable on lease premium for land	5,656	5,650
Accrued salaries and wages	5,145	5,846
Other accrued expenses	7,163	2,237
Trade payables (<i>Note 12</i>)	<u>2,157</u>	<u>1,650</u>
	<u>24,726</u>	<u>22,981</u>

12. Trade payables

Included in trade payables are balances with the following aging analysis:

	As at 31 October 2005 RMB'000	As at 30 April 2005 RMB'000
Within 1 month	2,086	1,650
Over 1 month but less than 3 months	<u>71</u>	<u>–</u>
	<u>2,157</u>	<u>1,650</u>



13. Commitments

(a) Capital commitments

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

	As at 31 October 2005 RMB'000	As at 30 April 2005 RMB'000
Contracted but not provided for		
– Purchase of property, plant and equipment	17,302	8,940

(b) Operating lease commitments

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of lease premium for land and cultivation bases for each of the following periods:

	As at 31 October 2005 RMB'000	As at 30 April 2005 RMB'000
Within one year	10,046	18,433
In the second to fifth	56,172	56,684
After the fifth year	164,490	176,760
	230,708	251,877

14. Contingent liabilities

The Group did not have any significant contingent liabilities as at the balance sheet date (30 April 2005: Nil).

15. Related party transactions

Pursuant to HKAS 24 issued by the HKICPA "Related Party Disclosures", there was no related party transaction during the six months ended 31 October 2005 and 2004.

16. Post balance sheet event

Subsequent to the balance sheet date on 15 December 2005, pursuant to the share option scheme adopted by the Company on 12 December 2003, the Company issued totally 21,600,000 options to the chairman of the board of directors, an executive director and a member of the senior management. The options are exercisable from 15 December 2006 to 12 December 2013.

17. Comparative figures

With the adoption of the HKFRSs, the presentation in the current period's financial statements has been modified in order to conform to the requirements of those standards. Comparative figures have been reclassified and restated in order to achieve a consistent presentation. The effect of which has been quantified in note 2 of the interim financial statements.

18. Approval of the interim financial statements

The Interim Financial Statements were approved and authorised for issue by the Board on 20 January 2006.