

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. BACKGROUND OF THE COMPANY

The Company was incorporated and registered as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 6 April 2001. On 19 July 2001, the Company was listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") by the issue of 460,000,000 ordinary shares at an offer price of HK\$1.48 per share.

Pursuant to a reorganisation of the Group (the "Group Reorganisation"), details of which have been set out in the Company's prospectus dated 9 July 2001 in preparation for the listing of the Company's shares on the Hong Kong Stock Exchange, on 7 April 2001, 20 April 2001 and 22 June 2001, the Company, in aggregate, issued 1,200,000,000 ordinary shares of HK\$0.10 each to Wise Capital Investments Limited ("Wise Capital") credited as fully paid in exchange for 100% equity interests of Success Honour Limited ("Success Honour") which is the holding company of Shenyang Euro-Asia Agricultural Development Co., Ltd. ("SEAA"). Upon completion of the Group Reorganisation, the Company has become the holding company of the Group, while Success Honour has become an intermediate holding company of SEAA, and SEAA, with effect from 1 January 2001, has assumed and now carries on the business of floricultural activities previously operated by the companies wholly owned and controlled by Mr. Yang Bin, the president and controlling shareholder of the Company. Also the Company has become a wholly owned subsidiary of Wise Capital.

As Mr. Yang Bin controlled the floricultural business before and continues to control after the Group Reorganisation, the Group Reorganisation has been accounted for as a reorganisation of companies under common control and on the basis of merger accounting.

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.

Since the Group Reorganisation was among companies under common control and owned by the same shareholder, the transaction has been accounted for on the basis of merger accounting in accordance with Statement of Standard Accounting Practice No.27, "Accounting for group reconstructions".

In respect of the unaudited consolidated balance sheets of the Group, the balance sheets as at 30 June 2001 and 31 December 2000 have been prepared on the basis as if the Group Reorganisation had been completed on 31 December 2000 and the floricultural business had been conducted through the current structure of the Group from 31 December 2000 and the current structure of the Group had been in existence throughout the period from that date.

In respect of the unaudited consolidated income statement of the Group for the six months

ended 30 June 2001, no comparative figures for the corresponding period from 1 January 2000 to 30 June 2000 are presented since the Company had not yet been incorporated on 6 April 2001.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the accountants' report as set out in the Company's prospectus dated 9 July 2001.

4. TURNOVER AND REVENUE

The principal activities of the Group are hybridisation propagation, cultivation, production and sale of floricultural produce.

(a) Turnover and revenue of the Group comprise the following:

	Six months ended 30 June 2001 <i>RMB'000</i>
Turnover	
- Sales of seedlings and flowers	507,119
Other revenue	
- Interest income	103
Total revenue	507,222

(b) An analysis of the Group's turnover by type of floricultural produce is as follows:

	Six months ended 30 June 2001 <i>RMB'000</i>
Orchid seedlings and flowers	
- Cymbidium (大花蕙蘭)	224,552
- Phalaenopsis (蝴蝶蘭)	180,303
- Cattleya (卡特利亞蘭)	18,717
Test-tube seedlings	20,825
Other flowers	62,722
Total	507,119

(c) An analysis of the Group's turnover by geographical destination of its shipments is as follows:

**Six months ended
30 June 2001**

RMB'000

Japan	61,512
Korea	56,897
The Netherlands	180,541
The PRC	208,169
Total	507,119

(d) Agricultural tax was calculated at 10% of the selling price of the floricultural produce sold by the Group during the six months ended 30 June 2001.

5. TRADE RECEIVABLES

An ageing analysis of trade receivables is as follows:

	As at 30 June 2001 <i>RMB'000</i>	As at 31 December 2000 <i>RMB'000</i>
- Within 3 months	8,046	19,624

The general credit terms granted to customers have been revised from 30 to 90 days to 0 to 30 days during the six months ended 30 June 2001.

6. TRADE PAYABLES

Generally, the credit terms on the Group's accounts payable are from 7 to 90 days. An ageing analysis of trade payables is as follows:

	As at 30 June 2001 <i>RMB'000</i>	As at 31 December 2000 <i>RMB'000</i>
- Within 30 days	10,288	1
- Between 30 to 60 days	24	19,661
- Between 60 to 90 days	-	
	3,623	
- Above 90 days	-	
	542	
	10,312	23,827

7. NET PROFIT FOR THE PERIOD

(a) Net profit for the period was determined after charging the following:

Six months ended
30 June 2001
RMB'000

Cost of sales (Note (b) below)	219,262
Auditors' remuneration	-
Depreciation of	
- Motor vehicles	45
- Auxiliary facilities	706
Export agency fees	11,716
Exchange loss, net	97
Staff costs (including directors and supervisors)	4,158

(b) Details of cost of sales are set out below:

Six months ended
30 June 2001
RMB'000

Cost of inventories	188,558
Production costs	
- Depreciation of	
* Owned greenhouses and production facilities	6,835
* Owned production machinery and equipment	86
- Operating lease rental of land	840
- Amortisation of prepaid rental	185
- Greenhouse management fees	661
- Utility expenses	636
- Labour costs	708
- Laboratory costs	
* Depreciation of owned greenhouse laboratory	973
* Greenhouse laboratory management fees	24
* Labour	590
* Operating lease rental of land	31
* Direct expenses	15,250
* Raw materials consumed	1,048
* Consumption of accessories	2,628
* Utility expenses	209
	30,704
	219,262

(c) An analysis of the Group's gross profit from operations by type of floricultural produce is as follows:

Six months ended
30 June 2001
RMB'000

Orchid seedlings and flowers	
- Cymbidium (大花蕙蘭)	107,251
- Phalaenopsis (蝴蝶蘭)	89,136
- Cattleya (卡特利亞蘭)	3,186
Test-tube seedlings	10,368
Other flowers	27,204
Total	237,145

- (d) An analysis of the Group's gross profit from operations by geographical destination of its shipments is as follows:

	Six months ended 30 June 2001 <i>RMB'000</i>
Japan	39,068
Korea	37,578
The Netherlands	102,072
The PRC	58,427
Total	237,145

8. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (a) During the six months ended 30 June 2001, the Group had operating lease rental amounting to RMB250,000 charged by a related company, a company wholly owned by Mr. Yang Bin.
- (b) The amount due to the related company (its relationship with the Group has been described in the preceding Note (a)) as at 31 December 2000 was fully settled in April 2001. The balance as at 30 June 2001 was mainly related to the rental expense charged and the administrative expenses paid on behalf of the Group by the related company.

The amount due to the related company was unsecured, non-interest bearing and without pre-determined repayment terms.

In the opinion of the directors, the related party transactions were carried out in the ordinary course of business and on normal commercial terms.

9. CONTINGENT LIABILITY

The Group had no material contingent liability not provided for as at 30 June 2001.

10. COMMITMENTS

(a) Capital commitments

As at the end of each of the periods, the Group had the following capital commitments which were authorised and contracted for:

	As at 30 June 2001 <i>RMB'000</i>	As at 31 December 2000 <i>RMB'000</i>
Purchase of production equipment	16,345	-

(b) Operating lease commitments

As at the end of each of the periods, the Group had commitments in respect of rental of land under various non-cancellable operating lease agreements.

Total future minimum lease payments payable:

	As at 30 June 2001 <i>RMB'000</i>	As at 31 December 2000 <i>RMB'000</i>
Not later than one year	1,620	1,120
Later than one year and not later than five years	6,680	4,580
Later than five years	22,343	11,285
	30,643	16,985

(c) Greenhouse management services contracts

As at the end of each of the periods, the Group had commitments in respect of contracted greenhouse management services of production bases.

Total greenhouse management services fee payable:

	As at 30 June 2001 RMB'000	As at 31 December 2000 RMB'000
Not later than one year	1,500	1,350
Later than one year and not later than five years	6,000	5,400
Later than five years	7,348	8,842
	14,848	15,592

11. SHARE CAPITAL

	Number of shares	Amount RMB
Authorised		
Upon incorporation of the Company (a)	1,000,000	106,000
Increase in authorised share capital (b)	1,000,000	106,000
Increase in authorised share capital (c)	4,998,000,000	529,788,000
	5,000,000,000	530,000,000
Issued and fully paid		
Issue of shares upon incorporation (a)	1,000,000	-
Issue of additional shares (b)	1,000,000	-
Issue of shares arising from the Group Reorganisation (c)	1,198,000,000	127,200,000
	1,200,000,000	127,200,000

Notes:

- (a) The Company was incorporated on 6 April 2001 in Bermuda with an authorised share capital of HK\$100,000 (RMB106,000) divided into 1,000,000 shares of HK\$0.10 each, all of which were issued nil paid to Wise Capital.
- (b) On 20 April 2001, the Company's authorised share capital was increased to HK\$200,000 (RMB212,000) by the creation of an additional 1,000,000 ordinary shares of HK\$0.10 each, all of which were issued nil paid to Wise Capital.
- (c) On 22 June 2001, the authorised share capital of the Company was increased to HK\$500,000,000 (RMB530,000,000) by the creation of an additional 4,998,000,000 shares of HK\$0.10 each, ranking pari passu in all respects with the existing shares.

On the same date, 1,198,000,000 shares were issued at par and credited as fully paid, as consideration for the exchange of the entire share capital of Success Honour Limited, a subsidiary, in connection with the Group Reorganisation described in Note 1.

The comparative figure of the Company's share capital as at 31 December 2000 has been presented as if the above-mentioned changes in share capital had taken place as at that date.

12. RESERVES

	Capital Reserve (a) <i>RMB'000</i>	Statutory Reserve (b) <i>RMB'000</i>	Retained Profit <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2000	137,719	-	-	137,719
Net profit for the period	-	-	217,431	217,431
Appropriation	-	21,940	(21,940)	-
As at 30 June 2001	137,719	21,940	195,491	355,150

- (a) Capital reserve of the Group represents the difference between the nominal value of HK\$120,000,000 (RMB127,200,000) of the shares issued by the Company and the aggregate of the share capital and share premium, of approximately RMB264,919,000, of Success Honour Limited, a subsidiary acquired through an exchange of shares pursuant to the Group Reorganisation described in Note 1.

The capital reserve of the Company as at 31 December 2000 has been presented as if the Group Reorganisation described in Note 1 had taken place as at that date.

- (b) In accordance with relevant PRC regulations, SEAA, a wholly foreign-owned enterprise established by the Group in the PRC, is required to provide for certain statutory funds, namely, reserve fund and staff and workers' bonus and welfare fund, which are appropriated from net profit after taxation but before dividend distribution. SEAA is required to allocate at least 10% of its net profit to the reserve fund until such reserve fund reaches 50% of the registered capital of SEAA. Appropriation to the staff and workers' bonus and welfare fund is at the discretion of the management. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. The staff and workers' bonus and welfare fund can only be used for employees' special bonuses and welfare facilities, and assets acquired through this fund shall not be taken as the assets of SEAA.

13. TAXATION

- (a) Enterprise Income Tax ("EIT")

In accordance with the PRC law of EIT for enterprises with foreign investment and foreign enterprises, SEAA, a subsidiary of the Company, with an operating period of more than ten years, is entitled to full exemption from state income tax and local income tax for two years and five years respectively commencing from the first

profit-making year after offsetting prior year's losses, followed by a 50% reduction of both state income tax and local income tax for the next three years. The rates of state income tax and local income tax applicable to SEAA are 30% and 3% respectively.

There was no EIT incurred by the Group during the six months ended 30 June 2001.

(b) Deferred taxation

There was no significant unprovided deferred taxation as at 30 June 2001 and 31 December 2000 and for the period ended 30 June 2001.

(c) Agricultural tax

Agricultural tax was calculated at a rate of 10% on the selling price of the floricultural produces sold by the Group.

(d) Taxation payable represents the PRC agricultural tax and individual income withholding tax payable.

14. EARNINGS PER SHARE

The calculation of the earnings per share is based on the net profit for the period of RMB217,431,000 and 1,200,000,000 ordinary shares deemed to be in issue throughout the period.

15. DIVIDEND

The Board of Directors does not recommend a payment of dividend for the six months ended 30 June 2001.

16. NOTES TO THE CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operations to net cash inflow from operating activities

	Six months ended 30 June 2001 RMB'000
Profit from operations	217,431
Interest income	(103)
Depreciation of fixed assets	8,645
Amortisation of prepaid rental	185
Increase in inventories	(37,471)
Decrease in trade receivables	11,578
Increase in deposits, prepayments and other receivables	(64,021)
Decrease in trade payables	(13,515)
Increase in accruals and other payables	1,489

Decrease in amount due to a related company	(14,650)
Increase in taxation	43,038

Net cash inflow from operating activities 152,606

(b) Non-cash transactions

During the period, production machinery and equipment of approximately RMB81,000 were transferred to the Group from a related company, its relationship with the Group has been described in Note 8(a).