



**CHAI·NA·TA**  
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## **FOR IMMEDIATE RELEASE**

### **Chai-Na-Ta Corp. Reports 2005 First Quarter Results**

RICHMOND, BRITISH COLUMBIA – May 9, 2005 – Chai-Na-Ta Corp. (TSX: "CC"; OTCBB: "CCCFF"), the world's largest supplier of North American ginseng, today announced a first quarter 2005 net loss of \$0.4 million, or \$0.02 per basic share, compared to net earnings of \$0.5 million, or \$0.02 per basic share, in the same period last year.

The Company took a \$111,000 provision on crop costs as a result of the Company's decision not to plant in British Columbia in 2005 due to the province-wide rust problem and the downward price pressure of ginseng grown in that region.

"Although we have operations in both British Columbia and Ontario, we are ramping up our acreage in Ontario as the growing conditions and weather patterns produce ginseng that is more acceptable by customers" said William Zen, Chairman and Chief Executive Officer.

Revenue declined to \$0.2 million in the 2005 first quarter from \$2.2 million in the prior year period.

"Ginseng buyers remain hesitant to buy root and resistant to carry inventory due to concerns about currency fluctuations. We believe that this trend will continue to affect the industry," Mr. Zen said.

"Chai-Na-Ta's average selling price decreased to about \$13 per pound in the first quarter of 2005 from about \$29 per pound in the first quarter of 2004. The net loss in the first quarter of 2005 resulted mainly from the reduction in sales. Notwithstanding the volatility of ginseng prices, we anticipate an improvement in sales during the next six months," added Mr. Zen.

In the quarter ended March 31, 2005, selling, general and administrative expenses were stable at \$0.4 million as compared with the same period last year.

Chai-Na-Ta's balance sheet remains healthy. The ratio of current assets over current liabilities still exceeds 2:1.

Chai-Na-Ta Corp., based in Richmond, British Columbia, is the world's largest supplier of North American ginseng. The Company farms, processes and distributes North American ginseng as bulk root, and supplies processed material for the manufacturing of value-added ginseng-based products.

This news release contains forward-looking statements that reflect the Company's expectations regarding future events. These forward-looking statements involve risks and uncertainties, and actual events could differ materially from those projected. Such risks and uncertainties include, but are not limited to, the success of the Company's ongoing research programs, general business conditions, and other risks as outlined in the Company's periodic filings, Annual Report, and Form 20-F.

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**FOR FURTHER INFORMATION PLEASE CONTACT:**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **For the three months ended March 31, 2005**

The following discussion and analysis reviews the operating results, financial position and liquidity, risks and industry trends affecting the financial results of Chai-Na-Ta Corp. Additional comments relate to changes made to operations since the year-end and their expected financial impact.

This commentary has been prepared as of May 6, 2005 and should be read in conjunction with the unaudited interim consolidated financial statements as at March 31, 2005 and for the three month periods ended March 31, 2005 and 2004 and their accompanying notes prepared in accordance with Canadian generally accepted accounting principles. The discussion and analysis should also be read in conjunction with the 2004 annual audited financial statements and MD&A which can be found on the Company's website. Amounts are expressed in Canadian dollars, unless otherwise specified.

Some of the statements made in this MD&A are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives, or goals, including words to the effect that the Company or management expects a stated condition or result to occur. Since forward-looking statements address future events and conditions by their very nature, they involve inherent risks and uncertainties. Actual results in each case could differ materially from those currently anticipated in such statements.

#### **OVERVIEW**

Chai-Na-Ta Corp. is the world's largest supplier of North American ginseng. Since its inception, the Company has grown from a farming operation into a vertically integrated organization embracing farming, bulk processing, distribution and marketing of North American ginseng and value-added nutraceutical products. The Company is headquartered in Richmond, British Columbia, Canada, with farming operations in both Ontario and British Columbia. The Company's wholly owned subsidiary in Hong Kong is responsible for the marketing and distribution of its products in China and Hong Kong. The Company also operates a showroom at its headquarters in Canada to promote and sell graded root and ginseng-based value-added products.

Ginseng buyers remain hesitant to buy root and resistant to carry inventory due to concerns about currency fluctuations. The Company continued to hold off on selling its inventory in the first quarter of 2005 as it anticipates that the price of ginseng will improve moderately in 2005. This decision resulted in sales of \$151,000 and a net loss of \$386,000 for the three months ended March 31, 2005.

The Company decided not to plant in B.C. in 2005 due to the province-wide rust problem and the downward price pressure of ginseng grown in that region. As a result of this decision, the Company recorded a provision of \$111,000 including lease termination costs in the first quarter of 2005. The Company has not yet determined if it will continue to plant in B.C. in 2006 and thereafter.

## RESULTS OF OPERATIONS

Revenue fell 93% to \$151,000 in the first quarter of 2005 from \$2.2 million in the first quarter of the previous year. The decrease in revenue was due to the 87% decline in the sales volume of bulk roots as the Company decided to hold off on the selling of its ginseng roots. The average selling price of bulk roots decreased to about \$13 per pound in the first quarter of 2005 from about \$29 per pound in the first quarter of 2004 and remains volatile. The sales in 2004 were from contracts committed to in late 2003 or early 2004 when the selling price was high.

Cost of goods sold was 107% of sales revenue in the first quarter of 2005, compared to 49% in the previous year period. Cost of goods sold is higher than revenue in the first quarter of 2005 because of storage insurance costs incurred.

Gross loss was 7% of sales in the first quarter of 2005 compared to a gross margin of 51% for the same period in 2004. The significant decrease was due to 55% reduction in selling price in the first quarter of 2005 compared to the same period in 2004. The small margins realized in the sales in the first quarter of 2005 were more than offset by the storage costs incurred.

For the three months ended March 31, 2005 selling, general and administrative expenses increased to \$411,000 compared to \$379,000 for the same period last year. The increase was mainly due to the expenditure for the rusty root research project.

Interest on short-term debt increased to \$75,000 in the first quarter of 2005 from \$8,000 in the first quarter of 2004. The increase was due to higher bank borrowings which resulted from lower sales revenue.

The Company recorded a provision of \$111,000 for the three months ended March 31, 2005. This provision was for costs incurred and committed to on sites that the Company decided not to plant in B.C. in 2005.

Other income reflected foreign exchange gains and losses, interest income and other miscellaneous items.

For the three months ended March 31, 2005, the Company incurred a net loss of \$386,000, or \$0.02 per basic share, compared to net earnings of \$506,000, or \$0.02 per basic share for the corresponding period last year. The decrease in net earnings resulted primarily from the reduction in sales volumes and margins on bulk root sales in the first quarter of 2005 compared to the same period in 2004.

The Company did not declare any dividends on any class of shares during the period ended March 31, 2005 or for any period in the previous three fiscal years ended December 31, 2004.

## QUARTERLY RESULTS OF OPERATIONS

The following table sets forth unaudited quarterly information for each of the eight quarters ended June 30, 2003 through March 31, 2005. This information has been derived from unaudited interim consolidated financial statements that, in the opinion of the Company's management, have been prepared on a basis consistent with the audited annual consolidated financial statements.

(Stated in Thousands of Canadian Dollars except per share amounts)	2005		2004		2003			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue	151	1,079	2,682	1,434	2,230	4,800	485	4,871
Operating (loss) profit	(608)	(1,073)	409	24	743	2,039	(33)	252
Net (loss) earnings	(386)	(660)	252	(18)	506	1,176	(53)	403
Net (loss) earnings per share:								
Basic	(0.02)	(0.03)	0.01	(0.00)	0.02	0.08	(0.00)	0.03
Diluted	(0.02)	(0.03)	0.01	(0.00)	0.01	0.03	(0.00)	0.01

Ginseng crops are harvested in the fall of every year; revenue and earnings tend to be higher in the fourth quarter and in the first two quarters of the following year as the harvested roots are sold. Significant fluctuations in revenue and earnings in any period are impacted by the quantity and quality of root sold, the selling price of such root and the relative strength of the Canadian dollar to the currency used by the customers.

The change in sales pattern over the last two years was mainly due to the strong Canadian dollar relative to the currencies used by the Company's customers, who deferred purchasing decisions, as well as by the Company's decision in the last quarter of 2004 and the first quarter of 2005 to hold off sales until the price of ginseng stabilizes. The net loss in the 2005 first quarter included a provision of \$110,000 on crop costs incurred for cancelled sites in B.C. The net loss in the 2004 fourth quarter included a write-down of \$600,000 on inventory. Net earnings in the 2003 second quarter included a \$1,000,000 write-down of ginseng crops.

## LIQUIDITY AND CAPITAL RESOURCES

The cash used in operations was \$1.1 million for the three months ended March 31, 2005, compared with cash provided by operations of \$2.4 million for the same period in 2004. The significant decrease in cash from operations in the first quarter of 2005 was mainly due to the decrease in sales net of amounts uncollected at the end of the respective periods. The Company's cash and cash equivalents as at March 31, 2005 was \$28,000 compared to a balance of \$89,000 at December 31, 2004, a decrease of \$61,000.

The working capital position of the Company at March 31, 2005 was a surplus of \$9.7 million compared to a surplus of \$11.4 million at December 31, 2004. This decrease came about mainly because of the increase in bank indebtedness which was due to a lack of sales and the increased liabilities for operating expenses and crop maintenance.

Current and non-current crop cost expenditures before depreciation and interest totalled \$1.6 million in the first quarter of 2005 and \$1.3 million in the same period of 2004. The increase in 2005 was due to an increase in garden construction costs as there were more acres planted in 2004 than in 2003.

As of March 31, 2005, the Company had fully drawn the available \$7.5 million revolving demand operating loan with a Canadian chartered bank. Subsequently, the Company has secured a \$1.5 million non-revolving term loan bearing interest at prime plus 0.5% per annum for three years from the same Canadian chartered bank. The term loan is secured by specific property of the Company. The operating loan has reverted back to \$6.5 million.

On April 4, 2005 the Company established a revolving loan facility of HK\$10,000,000 (approximately C\$1,565,000) from More Growth Finance Limited, a fellow subsidiary of the Company's parent company Road King Infrastructure Limited. The loan is unsecured and bears interest at 1.7% per annum over the HIBOR (Hong Kong Interbank Offered Rate) as quoted by the lender. The Company has fully drawn the loan facility which is due April 4, 2006.

The Company believes that its existing cash resources, together with the cash generated from future sales of inventory, available bank borrowings and related party borrowings, will be sufficient to meet its working capital and operating requirements for the next twelve months. The Company is also committed to reducing discretionary expenditures to reducing the cash required for operations. If cash resources are insufficient to fund operations, the Company may seek to secure additional capital through additional credit facilities, the issuance of equity or the disposal of expendable assets. There is no assurance that additional financing will be available on terms favourable to the Company or that the Company will be able to sell its inventory at a satisfactory price.

As at March 31, 2005, the Company had the contractual obligations and commercial commitments outlined in the chart below:

Contractual Obligations (Stated in Canadian Dollars)	Payments Due by Period				
	Total	Less Than One Year	2-3 Years	3-4 Years	After 5 Years
Long-term Debt	387,908	124,615	227,124	36,169	-
Operating Leases	112,063	68,382	43,681	-	-
Research & Development	171,700	85,850	85,850		

Agricultural Land Leases	2,062,269	739,095	983,899	323,275	16,000
Total Contractual Obligations	2,733,940	1,017,942	1,340,554	359,444	16,000

The following commitments are not included in the Contractual Obligations table above:

- The Company has agreed to indemnify a landlord with respect to any environmental contamination for certain leased premises. Although there is no maximum cost specified, the Company does not expect to incur costs in connection with this indemnification and as such no amounts have been accrued as of March 31, 2005;
- The Company is committed to maintaining its ginseng crops from the time of initial planting to the time of harvesting, which usually takes three to four years. The cost of maintaining these crops is financed through the sale of inventory and available bank borrowings;
- The Company has become involved in a legal proceeding as a result of an automobile accident. The Company believes that existing insurance will be sufficient to cover any claim from this matter. Accordingly, while the outcome cannot be determined at this time, no provision has been recorded as the Company believes that the resolution of this proceeding will not have a material impact on the financial condition, earnings or cash flows of the Company; and

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and other disclosures as at the end of or during the reporting periods. Actual results may differ from these estimates and from judgments made under different assumptions or conditions.

The following items require the most significant estimates and judgments in the preparation of the Company's financial statements:

### Inventory

The Company periodically reviews the carrying value of inventory to determine if write-downs are required to state the inventory at the lower of cost and net realizable value. The determination of net realizable value reflects management's best estimate of the expected selling price of the roots as well as consideration of qualitative factors such as size, shape, colour and taste. The carrying value of inventory also reflects management's expectation that the inventory will eventually be sold. Although management does not believe that additional provisions are required to align the carrying value of certain

inventory with its net realizable values, future events may indicate that the inventory is not saleable or that such inventory is not saleable at prices above carrying value.

### Ginseng Crops

The Company uses the full absorption costing method to value its ginseng crops and periodically reviews their carrying value for evidence of impairment. Included in the cost of crops are seed, labour, applicable overhead, interest and supplies required to bring them to harvest. The determination of impairment requires complex calculations and significant management estimation with respect to future costs to bring crops to harvest; demand for and the market price of harvested ginseng roots; and expectations as to the yield and quality of ginseng roots harvested. The estimation process is further complicated by the relatively long growing cycle of three to four years and the fact that roots remain underground. Although the Company's assumptions reflect management's best estimates, future events may result in materially different outcomes with respect to the recoverability of ginseng crop costs and the time required to bring the crops to harvest.

## RECENT ACCOUNTING PRONOUNCEMENTS

### Comprehensive Income

Effective January 1, 2007, the Company will be required to adopt the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530. This Section establishes standards for reporting and display of comprehensive income. It does not address issues of recognition or measurement for comprehensive income and its components. The adoption of this standard will not have a significant impact on the Company's consolidated financial statements.

### Foreign Currency Translation

Effective January 1, 2007, the Company will be required to adopt CICA Handbook Section 1651 which replaces Section 1650. This Section establishes standards for the translation of transactions of a reporting enterprise that are denominated in a foreign currency and financial statements of a foreign operation for incorporation in the financial statements of a reporting enterprise. The adoption of this standard will not have a significant impact on the Company's consolidated financial statements.

### Investments

Effective January 1, 2007, the Company will be required to adopt CICA Handbook Section 3051 which replaces Section 3050. This Section establishes standards for accounting for investments subject to significant influence and for measuring and disclosing certain other non-financial instrument investments. The adoption of this

standard will not have a significant impact on the Company's consolidated financial statements.

### Equity

Effective January 1, 2007, the Company will be required to adopt CICA Handbook Section 3251 which replaces Section 3250. This Section establishes standards for the presentation of equity and changes in equity during the reporting period. The adoption of this standard will not have a significant impact on the Company's consolidated financial statements.

### Financial Instruments

Effective January 1, 2007, the Company will be required to adopt the changes to CICA Handbook Section 3855 and to adopt Section 3861 which replaces Section 3250. Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The adoption of these standards will not have a significant impact on the Company's consolidated financial statements.

### Hedges

Effective January 1, 2007, the Company will be required to adopt the changes to CICA Handbook Section 3855. This Section establishes standards for when and how hedge accounting may be applied. The adoption of these standards will not have a significant impact on the Company's consolidated financial statements.

## RISKS AND UNCERTAINTIES

The Company's revenue and earnings are affected by the world price of ginseng root, which is determined by reference to factors including the supply and demand for North American ginseng root, negotiations between buyers and sellers, the quality and aesthetic characteristics of the root and the relative strength of the Canadian dollar to the currencies used by the Company's customers. A percentage change in the market price of ginseng root tends to have a corresponding impact on the revenue reported by the Company.

The Company identifies Canada as the primary economic environment in which it operates, and uses the Canadian dollar as its functional currency. A minor portion of the Company's revenue and receivables is denominated in U.S. dollars and Hong Kong dollars, and the Company is also exposed to foreign exchange risk through its net investment in a self-sustaining foreign subsidiary. The Company monitors its exposure to foreign exchange risk and balances its foreign currency holdings to reduce exposure to any one currency by repatriating any excess funds.

The Ministry of Commerce of the People's Republic of China announced an order that stops the importation of cultivated North American ginseng for the purpose of contract processing in China, and the subsequent exporting of the processed ginseng to other markets. The announcement was effective on November 1, 2004; however, it is premature to predict the impact of this measure on the demand for and the prices of North American ginseng.

## FINANCIAL INSTRUMENTS

Financial instruments of the Company are represented by cash and cash equivalents, accounts receivable and other receivables, bank indebtedness, accounts payable and accrued liabilities, customer deposits and long-term debt. The carrying value of these instruments approximates their fair value.

Interest on the Company's line of credit is based on variable rates. This exposes the Company to the risk of changing interest rates that may have an effect on its earnings in future periods. The Company does not use derivative instruments to mitigate this risk.

The Company's revenue is derived principally from the sale of ginseng roots to a limited number of customers that are concentrated in Asian markets. In order to manage its credit risk, the Company carefully monitors credit terms, investigates credit history and grants credit to customers with established relationships or acceptable credit ratings. Payments or deposits are usually received before shipments of inventory. Inventory may be held as security until payment is received, when such relationships have not been established. As the Company's significant customers do not necessarily use the ginseng themselves but instead distribute the ginseng to smaller wholesalers, distributors and retailers, the Company does not believe that it is economically dependent on any one customer nor that the loss of any one wholesaler would impact the Company's ability to market roots through other channels. There can be no assurance, however, that adverse changes in the above noted factors will not materially affect the Company's business, financial condition, operating results and cash flows.

The Company is exposed to currency exchange risk as a result of its international markets and operations. The Company does not use derivative instruments to mitigate this risk.

## OUTLOOK

The Company will remain focused on maximizing yield and quality, as well as capitalizing on opportunities for sustainable growth and profitability, in order to provide attractive returns to shareholders. The Company will continue the cultivation in Ontario and B.C., determine whether to continue planting in both Canadian regions and examine the possibility of establishing a presence in Wisconsin. The Company will also continue promoting its graded root and ginseng-based value-added products, and exploring opportunities to vertically integrate its operations and direct bulk root into value-added markets.

## ADDITIONAL INFORMATION

Additional information with respect to the Company is available on the SEDAR website at [www.sedar.com](http://www.sedar.com)

***CHAI-NA-TA CORP.***

**Interim Consolidated Financial Statements  
Three months ended March 31, 2005**

**(Unaudited - Prepared by Management)**

**CHAI-NA-TA CORP.**  
**Consolidated Balance Sheets**  
**(Unaudited)**

In thousands of Canadian dollars	<b>March 31 2005</b>	December 31 2004
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	28	89
Accounts receivable and other receivables	106	187
Inventory	10,771	10,922
Ginseng crops	8,069	7,693
Prepaid expenses and other assets	145	103
	<b>19,119</b>	18,994
Ginseng crops	14,574	13,176
Property, plant and equipment	8,875	9,171
	<b>42,568</b>	41,341
<b>LIABILITIES</b>		
Current liabilities		
Bank indebtedness (Note 3)	7,985	6,932
Accounts payable and accrued liabilities	1,291	496
Current portion of long-term debt	125	129
	<b>9,401</b>	7,557
Long-term debt	263	279
Future income taxes	2,016	2,233
	<b>11,680</b>	10,069
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	38,246	38,246
Contributed surplus	338	338
Cumulative translation adjustments	14	12
Deficit	(7,710)	(7,324)
	<b>30,888</b>	31,272
	<b>42,568</b>	41,341

On behalf of the Board:

**"William Zen"**

William Zen  
Director

**"Steven Hsieh"**

Steven T.M. Hsieh  
Director

**CHAI-NA-TA CORP.**  
**Consolidated Statements of Deficit**  
**(Unaudited)**

in thousands of Canadian dollars	Three months ended	
	March 31 2005	March 31 2004
	\$	\$
Balance, beginning of period	(7,324)	(7,046)
Change in accounting policy for stock based compensation (Note 1b)	-	(359)
Net (loss) earnings for the period	(386)	506
Balance, end of period	(7,710)	(6,899)

**CHAI-NA-TA CORP.**  
**Consolidated Statements of Operations**  
**(Unaudited)**

in thousands of Canadian dollars (except share and per share amounts)	<b>Three months ended</b>	
	<b>March 31 2005</b>	<b>March 31 2004</b>
	<b>\$</b>	<b>\$</b>
Revenue	151	2,230
Cost of goods sold	162	1,100
	<b>(11)</b>	<b>1,130</b>
Selling, general and administrative expenses	411	379
Interest on short-term debt	75	8
Provision on crop costs (Note 6)	111	-
	<b>597</b>	<b>387</b>
Operating (loss) income	<b>(608)</b>	743
Other income	5	21
(Loss) income before taxes	<b>(603)</b>	764
Provision for (recovery of) income taxes	<b>(217)</b>	258
<b>NET (LOSS) EARNINGS FOR THE PERIOD</b>	<b>(386)</b>	<b>506</b>
Basic (loss) earnings per share	<b>\$ (0.02)</b>	<b>\$ 0.02</b>
Diluted (loss) earnings per share	<b>\$ (0.02)</b>	<b>\$ 0.01</b>
Weighted average number of shares used to calculate basic (loss) earnings per share	<b>24,299,008</b>	24,268,079
Weighted average number of shares used to calculate diluted (loss) earnings per share	<b>24,299,008</b>	34,841,908

**CHAI-NA-TA CORP.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

in thousands of Canadian dollars	<b>Three months ended</b>	
	<b>March 31 2005</b>	<b>March 31 2004</b>
	<b>\$</b>	<b>\$</b>
<b>OPERATING ACTIVITIES</b>		
Net (loss) earnings after items not affecting cash (Note 7(a))	<b>(350)</b>	1,854
Changes in non-cash operating assets and liabilities (Note 7(b))	<b>543</b>	1,527
Changes in non-current cash crop costs	<b>(1,264)</b>	(1,005)
	<b>(1,071)</b>	2,376
<b>FINANCING ACTIVITIES</b>		
Bank indebtedness	<b>1,053</b>	(1,790)
Repayment of long term debt	<b>(20)</b>	(4)
Issuance of shares for cash	<b>-</b>	14
	<b>1,033</b>	(1,780)
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	<b>(23)</b>	(102)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
	<b>-</b>	9
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(61)</b>	503
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD</b>	<b>89</b>	506
<b>CASH AND CASH EQUIVALENTS END OF THE PERIOD</b>	<b>28</b>	1,009
Represented by:		
Cash	<b>28</b>	1,009
	<b>28</b>	1,009

Supplemental information Note 7(c)

## **CHAI-NA-TA CORP.**

### **Notes to the Interim Consolidated Financial Statements (Unaudited)**

#### **1. Summary of significant accounting policies**

a) Interim financial statements

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) except that certain information and note disclosures normally included in the Company's annual consolidated financial statements have not been presented. These interim consolidated financial statements and notes should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2004. These interim consolidated financial statements are subject to seasonality due to the timing of crop harvesting which typically occurs in the fall and the timing of subsequent sales, and therefore may not be indicative of results to be expected for the year ending December 31, 2005.

The interim consolidated financial statements follow the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except for the following change in accounting policies.

b) Stock-based compensation

Effective January 1, 2004, the Company was required to adopt the recommendations of CICA Handbook Section 3870 which requires the use of fair value based method in accounting for stock based compensation. This change in accounting policy has been applied on a cumulative retroactive basis without restatement of individual prior periods. The effect of adopting the new recommendations for the fair value of options granted since January 1, 2002 have been reflected as at January 1, 2004 as an adjustment to opening deficit of \$359,000 on the statement of deficit. Previously, compensation expense related to the fair value of such options were disclosed on a pro-forma basis in a note to the financial statements. The fair value of all future stock-based compensation will be amortized directly to the statement of operations over the vesting period of the stock options.

There was no stock-based compensation expense recognized for the three month periods ended March 31, 2005 and 2004.

c) Use of estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and other disclosures as at the end of or during the reporting periods. Significant estimates are used for, but not limited to, the accounting for doubtful accounts, net realizable value of inventory, crop costs, depreciation of property, plant and equipment, future income taxes and contingencies. Actual results may differ from those estimates.

#### **2. (Loss) earnings per common share**

Basic (loss) earnings per share is computed by dividing net (loss) earnings available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted (loss) earnings per share reflects the potential dilution of common shares by including other common shares equivalents in the weighted average number of common shares outstanding for a period, if dilutive. Common share equivalents consist of convertible preferred shares and the incremental number of shares issuable upon the exercise of stock options.

(in thousands except per share amounts) Three months ended	Net (loss) earnings (numerator)	Number of shares (denominator)	(Loss) earnings per share
	\$		\$
<b>March 31, 2005</b>			
<b>Basic</b>	<b>(386)</b>	<b>24,299</b>	<b>(0.02)</b>
<b>Effect of common share equivalents:</b>			
Preferred shares	-	-	-
Stock options	-	-	-
<b>Diluted</b>	<b>(386)</b>	<b>24,299</b>	<b>(0.02)</b>
<u>March 31, 2004</u>			
Basic	506	24,268	0.02
Effect of common share equivalents:			
Preferred shares	-	10,399	(0.01)
Stock options	-	175	(0.00)
Diluted	506	34,842	0.01

### 3. Bank indebtedness

As of March 31, 2005, the Company had fully drawn the available \$7,500,000 revolving demand operating loan with a Canadian chartered bank. Subsequently, the Company has secured a \$1,500,000 non-revolving term loan bearing interest at prime plus 0.5% per annum for three years from the same Canadian chartered bank. The term loan is secured by specific property of the Company. The operating loan has reverted back to \$6,500,000.

### 4. Share capital

In thousands	Number of Shares	Amount \$
<u>Common Shares</u>		
Balance as at December 31, 2004 and March 31, 2005	24,299	31,170
<u>Preferred Shares</u>		
Balance as at December 31, 2004 and March 31, 2005	10,399	7,076
		<b>38,246</b>

### 5. Stock options

Options to purchase 535,100 shares are outstanding and exercisable as at March 31, 2005 as follows:

	Number outstanding	Number exercisable	Exercise price (\$ / share)	Contractual life in years
Granted in 2003	535,100	535,100	\$ 0.73	3.71

Information regarding the Company's stock options as at March 31, 2005 is summarized as follows:

	Number of shares	Exercise price range (\$ / share)
Outstanding as at December 31, 2004	545,100	0.68 - 0.73
Expired	(10,000)	0.68
Outstanding as at March 31, 2005	535,100	0.73
Exercisable as at March 31, 2005	535,100	0.73

## 6. Provision on Crop Costs

The Company recorded a provision on crop costs of \$111,000 for the three months ended March 31, 2005. This provision was for costs incurred and committed to on sites that the Company decided not to plant in B.C. in 2005.

## 7. Cash Flow Information

### a) Net (loss) earnings after items not affecting cash

in thousands of Canadian dollars	Three months ended	
	March 31 2005	March 31 2004
	\$	\$
Net (loss) earnings	(386)	506
Items not affecting cash:		
Depreciation and amortization	14	11
Cost of ginseng crops sold	128	1,079
Provision on crop costs	111	-
Future income taxes	(217)	258
	(350)	1,854

### b) Changes in non-cash operating assets and liabilities

in thousands of Canadian dollars	Three months ended	
	March 31 2005	March 31 2004
	\$	\$
Accounts receivable and other receivables	81	1,464
Inventory	25	(404)
Ginseng crops	(316)	(280)
Prepaid expenses and other assets	(42)	(126)
Accounts payable and accrued liabilities	795	34
Customer deposits	-	839
	543	1,527

### c) Supplemental cash flow information

in thousands of Canadian dollars	Three months ended	
	March 31 2005	March 31 2004
	\$	\$
Other cash flows:		
Interest paid	69	11

## 8. Segmented Information

The Company operates in one industry segment and two geographic regions.

in thousands of Canadian dollars	Three months ended	
	March 31 2005	March 31 2004
Revenue from operations located in:	\$	\$
Canada	142	-
Far East	9	2,230
	<b>151</b>	<b>2,230</b>
Intersegment revenue from operations located in:	\$	\$
Canada	-	2,615
Far East	-	-
	-	2,615
Net (loss) earnings from operations located in:	\$	\$
Canada	(365)	480
Far East	(21)	26
	<b>(386)</b>	<b>506</b>

Long-lived assets comprise of all assets not classified as current assets.

in thousands of Canadian dollars	March 31	
	2005	March 31 2004
Long-lived assets from operations located in:	\$	\$
Canada	23,447	19,661
Far East	2	3
	<b>23,449</b>	<b>19,664</b>

Major customers:

For the three months ended March 31, 2005, revenue consisted of sales to one customer which accounted for \$125,125 from the Canadian geographic region (March 31, 2004 - two customers from the Far East geographic region which accounted for \$1,411,200 and \$812,700, respectively).

## 9. Commitments, Guarantees and Contingencies

- a) The Company has agreed to indemnify a landlord with respect to any environmental contamination for certain leased premises. Although there is no maximum cost specified, the Company does not expect to incur any costs in connection with this indemnification and as such no amounts have been accrued as of March 31, 2005.
- b) The Company has entered into an agreement to contribute funding to support a rusty root research project and agreed to pay a total sum of \$272,550 of which \$100,850 has been paid as at March 31, 2005 with the balance payable in four semi-annual payments of \$42,925 commencing July 2005.
- c) The Company has become involved in a legal proceeding as a result of an automobile accident. The Company believes that existing insurance will be sufficient to cover any claim from this matter. Accordingly, while the outcome cannot be determined at this time, no provision has been recorded as the Company believes that the resolution of this proceeding will not have a material impact on the financial condition, earnings or cash flows of the Company.

#### **10. Subsequent Events**

On April 4, 2005 the Company established a revolving loan facility of HK\$10,000,000 (approximately C\$1,565,000) from More Growth Finance Limited, a fellow subsidiary of the Company's parent company Road King Infrastructure Limited. The loan is unsecured and bears interest at 1.7% per annum over the HIBOR (Hong Kong Interbank Offered Rate) as quoted by the lender. The Company has fully drawn the loan facility which is due April 4, 2006.