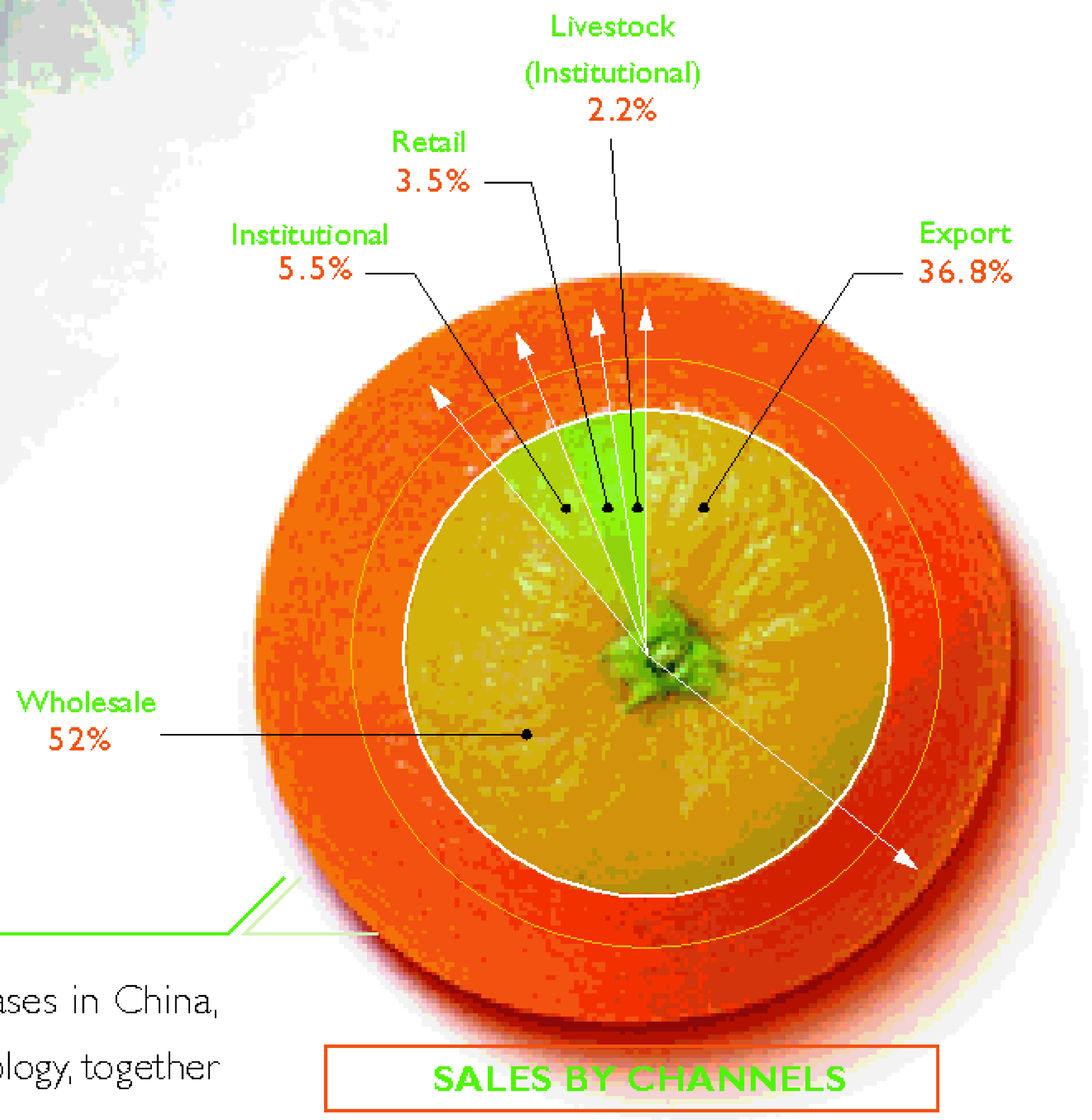
MANAGEMENT DISCUSSION AND ANALYSIS

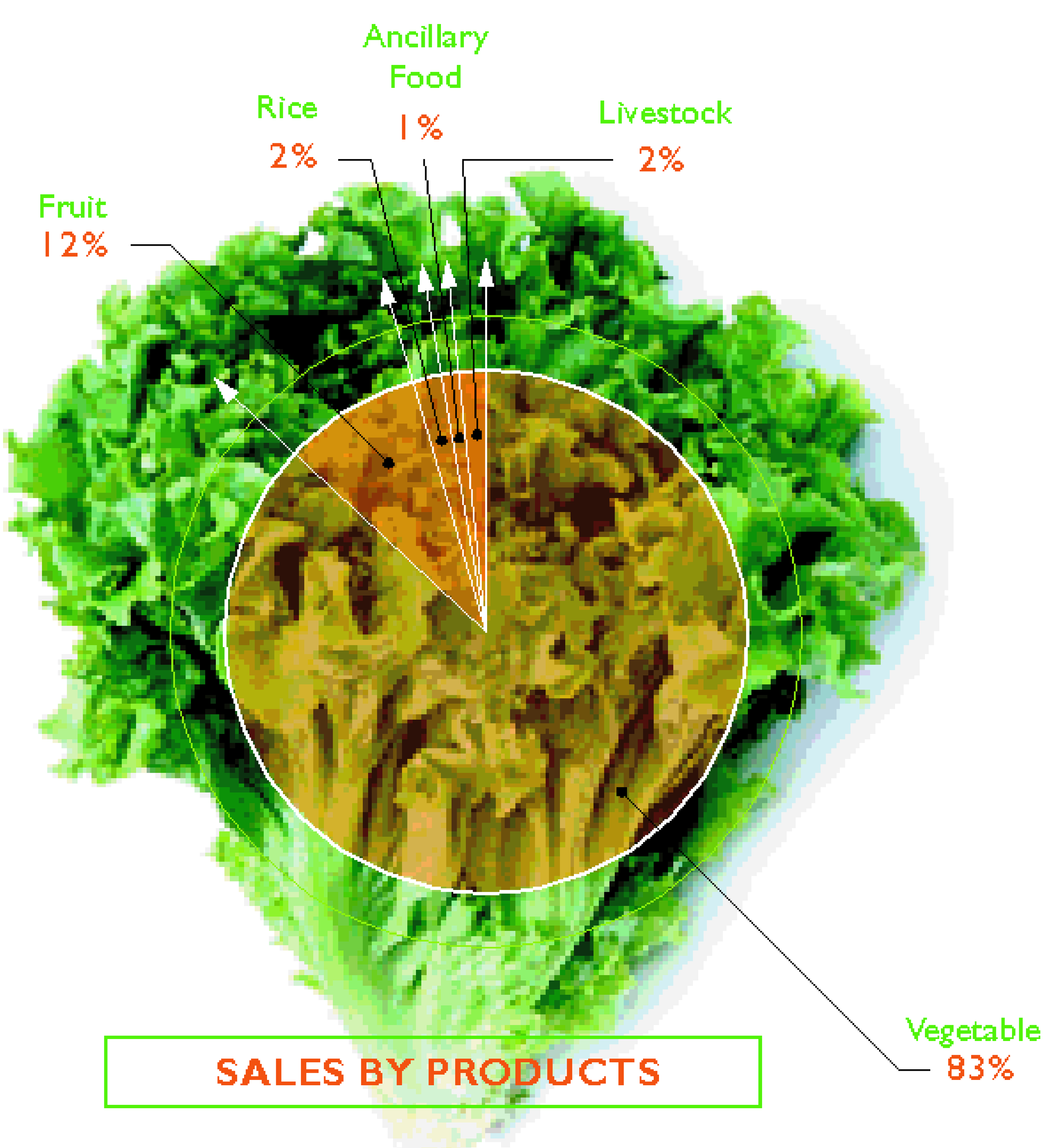


BACKGROUND

Leveraging its vast non-polluted production bases in China, application of high-end organic cultivation technology, together with the Group's modern and institutionalized management method to sell its quality vegetables and fruits in domestic and overseas markets. The Group's aim is to sell more products to the end-consumers in order to achieve profit maximization and to promote the "CHAODA" brand as a quality agricultural producer.

FINANCIAL PERFORMANCE

(Note: For comparison purpose, all the analysis below is based on the actual results of the Group for the year ended 30th June 2001 and the pro-forma results of the Group for the year ended 30th June 2000 on page 64.)



The Group's turnover and net profit attributable to shareholders for the year ended 30th June 2001 was approximately RMB725,546,000 and RMB440,821,000 respectively, representing a tremendous increase of 370% and 555% respectively, as compared with the result of last year. Overall gross margin grew to 75.2%, representing an increase of 2.8 percentage points as compared with last year's 72.4%. Net margin increased to 60.8% as compared with last year's 43.6%.

The actual net profit attributable to shareholders during the year is 19.1% higher than the forecasted profit of RMB 370,000,000 as set out in the Company's prospectus dated 5th December 2000. The Board of Directors believes that the better performance is due to faster expansion of production bases than expected and higher production efficiency achieved.

Sales of agricultural produce accounted for 97% of the total turnover, while sales of livestock accounted for 2%, for sales of ancillary food product accounted for the remaining 1%.


CHAODA MODERN AGRICULTURE
ORGANIC, GREEN, NON-POLLUTED
AGRICULTURAL PRODUCE

SALES NETWORK

With years of co-operation with different levels of customers and meeting the vast diversity in customer requirements, the Group produces a variety of produce with different specification. This has enabled the Group to establish long-term relationships with these business partners. In addition, the Group is aggressively involved in collecting and analyzing market transaction information, accompanied by a comprehensive logistics system, to satisfy the various needs of customers. Generally, the Group's customer bases can be categorised into the following four sales networks:

Wholesale markets (China)

China has a vast population that mainly spreads out in the major cities. Each family's daily fresh vegetable and fruit supply comes from one or more of the city's first tier wholesale markets. Supplies for the city outskirts and the more distant regions come from the relatively small-scale second tier wholesale markets. All wholesale transactions are settled by cash daily which contributes to approximately 52.0% of the total turnover of the Group.

Institutional sales (China)

The Group's another sales channel directly distributes vegetables, fruits and rice to large institutional customers based on their orders on a daily basis. These institutional customers include schools, hospitals, government organizations, hotels and supermarket chains. As these organizations have over tens of thousand people, the Group supplies large amounts of agricultural produce to their canteens daily. Institutional customers enter into contracts with a fixed payment date of around 15 to 30 days for a term of 15 years. These institutional customers provide a stable, diverse and high demand for the Group's products, stabilizing its source of income. Institutional sales represent 5.5% of the total turnover of the Group.

A note-worthy point is that many overseas supermarket chain stores, such as Walmart, Metro, Carrefour are expanding their strategic sales points in many of China's major cities, leading their general public to gradually adopt these chain supermarket consumption patterns in these locations. With the quality of its vegetables and fruits, the Group is often the supplier of these supermarket chain stores. Meeting the improving living standards in China, distribution to these large supermarket chain stores will bring to the Group new market arena.

Retail sales (China)

The Group has also established dedicated retail sales outlets to sell its own agricultural produce under the "CHAODA" brand name. On one hand, this enhances recognition and acceptance of the "CHAODA" brand name to the public. On the other hand, it brings in higher profit as gross margin in the retail market are higher than the aforementioned two sales channels. Retail sales represent 3.5% of the total turnover of the Group.

Export markets (Overseas)

The Group conducted its export sales by means of indirect sales through the PRC trading companies and direct sales to overseas customers. Japan, South Korea and Hong Kong are the Group's major export region markets. The Group is also actively exploring overseas markets in South East Asia, the United States and Europe. Export markets enjoy the highest gross margin amongst the different sales channels and contribute 36.8% of the total turnover of the Group.

Despite the increase in turnover from its export markets, the Group is planning to set up representative office in Japan to better understand the pricing system and the requirements of organic food produce of the local consumers in order to cultivate agricultural produce they like. In addition, paving way for direct exports to this market can avoid getting through international trade intermediaries, which will help to enhance the Group's profit margin.

The livestock business contributed to the rest of 2.2% of the total turnover of the Group during the year.

TURNOVER

The total turnover of the Group increased to RMB725,546,000 from last year's RMB154,225,000, representing an increase of 370%.

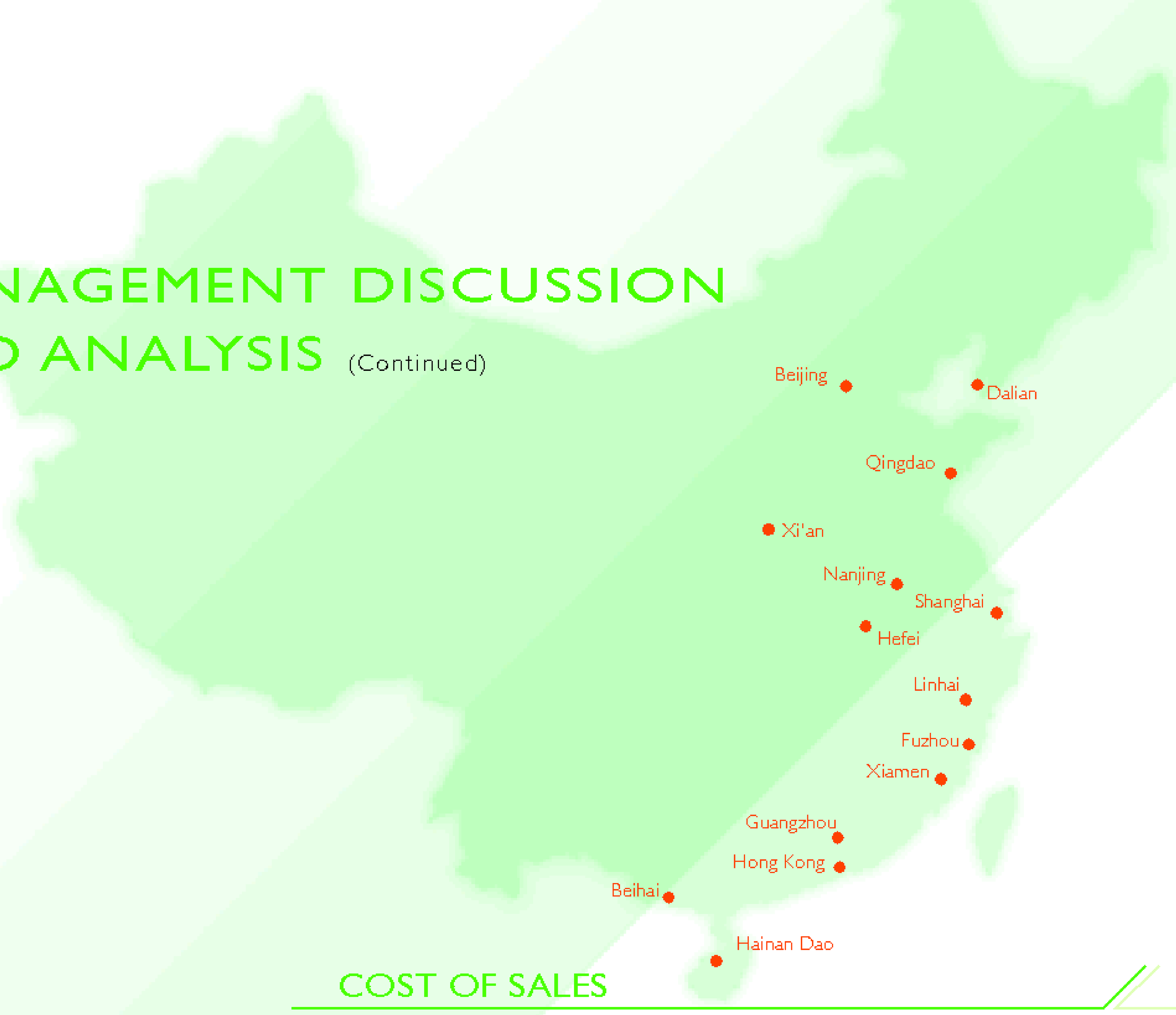
The increase in the turnover resulted mainly from the increase of production yields and the growing number of production bases which have significantly enlarged total land areas cultivated. The production output increased to 313,417 tonnes from 49,489 tonnes in last year. Additionally, the expansion beyond Fujian, both in the location of production bases and the sales network, to high consumption cities earlier this year, created widespread room for market expansion. Besides, supporting the Group's activities is its highly efficient information and logistic system which helps to obtain first-hand market information such as variations in prices and consumer preferences, etc. The Group can then utilise the logistics system to deliver agricultural produce to areas with strong demand particularly from production bases with substantial outputs. As consumers from these high demand areas are willing to pay more for these "anti-seasonal" vegetables, the Group is therefore able to enjoy a higher gross margin of 75.2% as compared to the 72.4% recorded last year, representing an increase of 2.8 percentage points.

In addition to the success of its research and development results in embryo transfer technology, the Group commenced its commercial breeding of Boer goats, originally imported from South Africa, in Shandong Province. For the year ended 30th June 2001, the Group sold 903 goats and kept 978 goats at the year end.

Domestic sales and export sales represent 63.2% and 36.8% of the total turnover respectively. The export sales contribution was lower than last year's 41.7%, however, it is 1.8 percentage points higher than the 35% reported in the interim results, demonstrating that the newly expanded production bases are gradually supporting an expansion in overseas markets. Agricultural produce was delivered directly to export markets from a number of production bases.

The Group has never experienced any material difficulties with its accounts receivable or incurred substantial bad debt since most sales transactions are settled in cash.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)



COST OF SALES

Similar to other agricultural enterprises, the Group's six principal cultivation cost items include organic fertilizers, biological pesticides, seeds, wages, rental of production bases as well as other miscellaneous costs. Among these, all organic fertilizers of the Group were supplied by an agricultural raw material company controlled by the Group's chairman, Mr. Kwok Ho. A long-term supply contract was established on 1st December 2000, under which purchase price will be determined at prevailing market price from time to time. This has stabilized supply for this core raw material.

The Group's strong research and development in advanced agricultural techniques results in improved production processes with more controllable production costs and higher yields, thus achieving higher gross margin.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses mainly include packaging, transportation, remuneration of sales staff and advertising. The percentage of selling and distribution expenses to the total turnover increased to 8.5% from 7.1% of last year. The increase was resulted from the promotion of the "CHAODA" brand which led to more advertising expenses.

GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses mainly include remuneration of administration staff, rent of dedicated retail sales outlets and offices and research expenses. The percentage of general and administration expenses to the total turnover increased to 6.4% from 5.4% of last year. The increase was a result of new research and development projects. According to a prudent view of the Board of Directors, we have expensed part of the research and development expenditure of the early stage as research expenses according to the Group's accounting policy.

USE OF LISTING PROCEEDS

On 15th December 2000, the Company was listed on the Main Board of The Hong Kong Stock Exchange with an initial public offer of 400,000,000 new shares, amounting to 25% of the enlarged issued share capital. The net listing proceeds, after deduction of related issuance expenses, amounted to approximately RMB581,488,000 (i.e. HK$547,850,000). As at 30th June 2001, the Group had applied part of the listing proceeds as follows:

1. Approximately RMB145,000,000 (equivalent to HK$136,947,000) for the establishment of new production bases;
2. Approximately RMB118,000,000 (equivalent to HK$111,447,000) for the establishment of greenhouse facilities, irrigation systems and the setting up of processing factories;
3. Approximately RMB8,000,000 (equivalent to HK$7,556,000) for the funding of marketing and promotional activities in connection with the China domestic and export sales;
4. Approximately RMB33,000,000 (equivalent to HK$31,167,000) for the funding of research and development expenditure on new produce species and agri-technology; and
5. Approximately RMB4,000,000 (equivalent to HK$3,778,000) for the funding of the expansion of the Boer goats breeding business.

The net proceeds which have not yet been utilized will be used for the intended applications as set out in the Company's prospectus dated 5th December 2000.

STAFF AND REMUNERATION POLICIES

As at 30th June, 2001, the Group employed 5,178 staff member, of which 4,371 worked on farmland. The Directors have long recognised that talents are vital for the Group's rapid expansion, and that they are the main driving forces behind the improvement of modern organic green cultivation technology. Employees salaries are therefore determined at a competitive level, while employees with outstanding performance will be rewarded with discretionary bonus. Other staff benefits include Hong Kong Mandatory Provident Fund, insurance, education subsidies, training programmes and share option scheme.

The share option scheme adopted by the Company on 23rd November 2000 provided that the Board of Directors may grant to any full-time staff (including Executive Director) of the Company and its subsidiaries options to subscribe for the shares of the Company pursuant to the provisions of the scheme. However, no options were granted for the year ended 30th June 2001.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30th June 2001, the Group had bank and cash balances amounting to RMB577,169,000 (equivalent to HK$545,116,000) and a short term bank loan of RMB50,000,000 provided by a bank in the PRC, which is secured by a bank deposit of HK$50,000,000 (equivalent to RMB53,070,000) placed with the same bank for working capital purposes. Apart from the above-mentioned bank loans, the Group has no banking facilities as at 30th June 2001. The interest rate of the bank loan is fixed at 5.5575% per annum.

As at 30th June 2001, the Group's gearing ratio was zero. This is based on the division of long term debt by total assets. Additionally, the Group's liquidity ratio is 2.9, reflecting the presence of sufficient financial resources.

The Group's sales are mainly transacted in Renminbi and the books are also recorded in Renminbi. As the Company raised net proceeds equivalent to RMB581,488,000 (i.e. HK$547,850,000) upon its listing during the year, the Group still has large amounts of Hong Kong dollar bank deposits. Since the exchange rate fluctuation between the Hong Kong dollar and Renminbi is very small, the foreign exchange risk is very low and no hedging have been made.

As at 30th June 2001, the Group had outstanding contracted capital commitments amounting to approximately RMB425,859,000 in respect of purchase of fixed assets and research and development expenditure. In addition, as at 30th June 2001, the Group did not have any material contingent liabilities.

The Board of Directors is comfortable that existing financial resources will be sufficient for future expansion plans. If other opportunities arise which require additional funding, the Board of Directors believes that the Group is in an excellent position to obtain financing on favourable terms.