



CHAODA MODERN AGRICULTURE (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2002 / 2003



The Board of Directors of Chaoda Modern Agriculture (Holdings) Limited (the “Company”) is pleased to present the Interim Report for the six months ended 31st December, 2002 of the Company and its subsidiaries (collectively the “Group”). The consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 31st December, 2002 and the consolidated balance sheet of the Group as at 31st December, 2002 (the “condensed accounts”), all of which are unaudited and condensed, along with selected explanatory notes, are set out below and have been reviewed by the Company’s audit committee together with the Company’s independent joint auditors, PricewaterhouseCoopers and Charles Chan, Ip & Fung CPA Ltd.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31st December, 2002

		Six months ended	
		31st December,	
	<i>Note</i>	2002	2001
		RMB'000	RMB'000
Turnover			
Sales of crops		627,327	452,067
Sales of livestock		13,286	8,240
Sales from operations of supermarkets and dedicated sales outlets		10,502	1,094
		651,115	461,401
Cost of sales		(199,384)	(115,815)
Gross profit		451,731	345,586
Other revenues		6,437	9,424
Selling and distribution expenses		(61,464)	(40,673)
General and administrative expenses		(45,748)	(24,608)
Research expenses		(15,770)	–
Net other operating (expenses)/income		(13,524)	1,056
Operating profit	4	321,662	290,785
Finance costs		(5,053)	(920)
Share of results of associated companies		3,672	619
Profit before taxation		320,281	290,484
Taxation	6	(48,095)	–
Profit after taxation		272,186	290,484
Minority interests		718	–
Profit for the period		272,904	290,484
Earnings per share	7	RMB14.2 cents	RMB17.4 cents
Dividends	8	182,490	148,654

UNAUDITED CONSOLIDATED BALANCE SHEET
As at 31st December, 2002

		As at 31st December, 2002 <i>RMB'000</i>	As at 30th June, 2002 <i>RMB'000</i>
	Note		
Fixed assets		746,592	463,857
Construction-in-progress		314,895	269,370
Computer software development cost		48,333	56,000
Deferred development costs		71,536	69,482
Long-term prepaid rentals		594,067	443,521
Long-term bank deposits		105,880	105,880
Other long-term deposits		2,150	2,150
Interests in associated companies	9	147,711	140,246
Current assets			
Inventories, at cost		72,241	60,376
Accounts receivable	10	21,618	61,238
Other receivables, deposits and prepayments		135,559	114,460
Cash and bank balances	11	556,040	891,043
		785,458	1,127,117
Current liabilities			
Amount due to a related company	12	6,173	4,308
Accounts payable	13	9,227	1,516
Other payables and accrued charges		36,039	48,084
Short-term bank loan – secured	14	10,000	–
Current portion of long-term bank loans – secured	17	41,293	–
Taxation		140,916	93,096
		243,648	147,004
Net current assets		541,810	980,113
		2,572,974	2,530,619
Financed by:			
Share capital	15	203,266	203,789
Reserves	16	2,240,993	2,156,357
Shareholders' funds		2,444,259	2,360,146
Minority interests		4,835	5,300
Long-term bank loans – secured	17	123,880	165,173
		2,572,974	2,530,619

**UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 31st December, 2002*

	Six months ended	
	31st December,	
	2002	2001
	RMB'000	RMB'000
Net cash inflow from operating activities	<u>386,667</u>	265,318
Net cash used in investing activities	<u>(538,080)</u>	(401,211)
Net cash (used in)/ from financing activities	<u>(183,590)</u>	757,489
(Decrease)/increase in cash and cash equivalents	(335,003)	621,596
Cash and cash equivalents at 1st July	<u>891,043</u>	524,099
Cash and cash equivalents at 31st December	<u>556,040</u>	<u>1,145,695</u>

Cash and cash equivalents as at 31st December, 2002 and 2001 are all cash and bank balances.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 31st December, 2002

		Six months ended	
		31st December,	
		2002	2001
	<i>Note</i>	RMB'000	<i>RMB'000</i>
Total equity as at 1st July		2,360,146	1,131,535
Issue of new shares		–	781,191
Issuing expenses		–	(25,850)
Repurchase of shares	<i>15</i>	(6,301)	–
Profit for the period		272,904	290,484
Dividends	<i>8</i>	(182,490)	(148,654)
		<hr/>	<hr/>
Total equity as at 31st December		<u>2,444,259</u>	<u>2,028,706</u>

NOTES TO THE CONDENSED ACCOUNTS

1. Basis of preparation

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 (revised), Interim Financial Reporting, issued by the Hong Kong Society of Accountants (as applicable to condensed accounts) and Appendix 16 of 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.

These condensed interim accounts should be read in conjunction with the annual accounts for the year ended 30th June, 2002.

2. Principal Accounting Policies

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 30th June, 2002 except that the Group has changed certain of its accounting policies following its adoption of the following new or revised SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised)	Presentation of financial statements
SSAP 11 (revised)	Foreign currency translation
SSAP 15 (revised)	Cash flow statements
SSAP 25 (revised)	Interim financial reporting
SSAP 34	Employee benefits

The adoption of the above new or revised SSAPs has no material impact on the Group’s consolidated profit and loss accounts for the six months ended 31st December, 2002 and 2001 and the Group’s consolidated balance sheets as at 31st December, 2002 and 30th June, 2002.

3. Segment information

The Group is principally engaged in the growing and sales of crops, breeding and sales of livestock, and operations of supermarkets and dedicated sales outlets (“DSO”). The Group commenced its operation of supermarkets in the current period. The results of the major business activities for the six months ended 31st December, 2002 and 2001 are summarised below:

For the six months ended 31st December, 2002

	Growing and sales of crops RMB'000	Breeding and sales of livestock RMB'000	Sales from operations of supermarkets and DSO RMB'000	Total RMB'000
Turnover	627,327	13,286	10,502	651,115
Cost of sales	<u>(184,839)</u>	<u>(5,330)</u>	<u>(9,215)</u>	<u>(199,384)</u>
Gross profit	442,488	7,956	1,287	451,731
Unallocated items:				
Other revenues				6,437
Selling and distribution expenses				(61,464)
General and administrative expenses				(45,748)
Research expenses				(15,770)
Net other operating expenses				<u>(13,524)</u>
Operating profit				321,662
Finance costs				(5,053)
Share of results of associated companies				<u>3,672</u>
Profit before taxation				320,281
Taxation				(48,095)
Minority interests				<u>718</u>
Profit for the period				<u><u>272,904</u></u>

For the six months ended 31st December, 2001

	Growing and sales of crops RMB'000	Breeding and sales of livestock RMB'000	Sales from operations of DSO RMB'000	Total RMB'000
Turnover	452,067	8,240	1,094	461,401
Cost of sales	<u>(110,875)</u>	<u>(4,123)</u>	<u>(817)</u>	<u>(115,815)</u>
Gross profit	341,192	4,117	277	345,586
Unallocated items:				
Other revenues				9,424
Selling and distribution expenses				(40,673)
General and administrative expenses				(24,608)
Net other operating income				<u>1,056</u>
Operating profit				290,785
Finance costs				(920)
Share of results of associated companies				<u>619</u>
Profit before taxation				290,484
Taxation				<u>-</u>
Profit for the period				<u><u>290,484</u></u>

There are no sales transactions between the business segments.

Growing and sales of crops is the Group's primary operation. The turnover, operating profits and total assets attributable to this business segment accounted for over 90% of the Group's consolidated totals for the periods ended 31st December, 2002 and 2001. Consequently, no other segment analysis by business activities is presented.

The Group's operations are primarily in the People's Republic of China ("PRC") and the Group's sales, gross profits and total assets attributable to other geographical areas are both less than 10% of the Group's consolidated totals for the periods ended 31st December, 2002 and 2001. Consequently, no geographical segment analysis is presented.

4. Operating profit

Operating profit is stated after (crediting)/charging the following:

	Six months ended 31st December,	
	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Crediting		
Amortisation of negative goodwill	(4,068)	(4,068)
Interest income	(5,271)	(9,424)
Charging		
Depreciation of owned fixed assets	22,563	6,242
Operating lease expenses		
– land and buildings	20,242	13,749
– motor vehicles	296	194
Staff costs	59,911	40,169
Amortisation of deferred development costs	1,575	1,187
Amortisation of long-term prepaid rental	5,263	3,291
Amortisation of computer software cost	9,667	–
Research expenses	15,770	–
Loss on disposal of fixed assets	4,034	–

5. Staff costs

	Six months ended 31st December,	
	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Wages and salaries	59,114	39,890
Pension costs – defined contribution plans	797	279
	59,911	40,169

6. Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	Note	Six months ended 31st December,	
		2002 RMB'000	2001 RMB'000
PRC income tax	(i)	47,820	–
Hong Kong profits tax	(ii)	–	–
		47,820	–
Share of taxation attributable to an associated company	(iii)	275	–
		48,095	–

- (i) Fuzhou Chaoda Modern Agriculture Development Company Limited (“Fuzhou Chaoda”), the Group’s principal subsidiary, was awarded as “State-Level Agricultural Leading Enterprise” of the nation by the central government of the People’s Republic of China (the “PRC”) in December 2002. According to the circular Nong Jing Fa [2000] No. 8 and No. 10 jointly issued by Agricultural Ministry, State Development Planning Commission, State Economic & Trade Commission, Ministry of Finance, Ministry of Foreign Trade & Economic Cooperation, People’s Bank of China, State Administration of Taxation and Securities Regulatory Commission, domestic PRC State-Level Agricultural Leading Enterprises are entitled to certain tax benefits including full exemption of income tax. However, as Fuzhou Chaoda is a foreign investment enterprise, the Group is currently in discussion with the State Administration of Taxation and Fujian State Tax Bureau (collectively, “Tax Bureaus”) to ascertain the tax benefit entitled by Fuzhou Chaoda and whether these tax benefits will also be applied to other PRC subsidiaries comprising the Group. Pending the outcome of the discussion between management and the Tax Bureaus, it is currently uncertain whether the Group will be entitled to full income tax exemption in respect of the periods prior to the Group being qualified as State-Level Agricultural Leading Enterprise and in the future. As a result, the Group has followed the tax rules and made a provision for PRC income tax of approximately RMB47.8 million in the consolidated profit and loss account for the six months ended 31st December, 2002 and the accumulated income tax provision in the consolidated balance sheet amounted to approximately RMB140.9 million as at 31st December, 2002. Should the exemption of income tax be granted, the accumulated income tax provision of approximately RMB140.9 million will be subject to write back as an income item in the profit and loss account.
- (ii) No provision for Hong Kong profits tax has been made as there are no estimated assessable profits for the subsidiary operated in Hong Kong during the period.
- (iii) It represents the share of PRC income tax charged at a reduced tax rate of 7.5% on the assessable profits of Lucky Team Biotech Development (Hepu) Limited, a wholly owned subsidiary of the Group’s 49% owned associated company.

7. Earnings per share

The calculation of the earnings per share is based on the Group's profits for the period of RMB272,904,000 (2001: RMB290,484,000) and the weighted average number of 1,918,448,413 (2001: 1,669,565,217) shares in issue during the period.

8. Dividends

		Six months ended 31st December,	
	<i>Note</i>	2002 RMB'000	2001 RMB'000
2001/2002 final, paid, of HK\$0.09 per share (2000/2001 final, paid HK\$0.073 per share)	(a)	182,490	148,654

Notes:

- (a) At the annual general meeting held on 11th December, 2002, final dividends for the year ended 30th June, 2002 of HK\$0.09 per share (2000/2001: final of HK\$0.073 per share) was declared and paid during the period. The amount was reflected as appropriations of retained earnings for the six months ended 31st December, 2002.
- (b) The directors do not recommend the payment of an interim dividend for the six months ended 31st December, 2002 (2001: nil).

9. Interests in associated companies

	As at 31st December 2002 RMB'000	As at 30th June 2002 RMB'000
Share of net assets	290,874	287,477
Negative goodwill on acquisition less accumulated amortisation	(150,513)	(154,581)
	140,361	132,896
Shareholder's loan	7,350	7,350
	147,711	140,246

The associated companies operate a citrus farm in Guangxi, the PRC.

10. Accounts receivable

The Group granted a credit term of 30 to 150 days to the majority of its customers.

At 31st December 2002, the analysis by age of the accounts receivable of the Group was as follows:

	As at 31st December, 2002 RMB'000	As at 30th June, 2002 RMB'000
0 – 1 month	20,064	43,039
1 – 3 months	1,052	14,758
Over 3 months	502	3,441
	<u>21,618</u>	<u>61,238</u>

11. Cash and bank balances

Included in cash and bank balances is a bank deposit of HK\$20,000,000 (equivalent to RMB21,176,000) which is pledged as a security for the Group's short-term bank borrowings amounting to RMB10,000,000.

12. Amount due to a related company

The amount due to a related company arose from purchases of agricultural materials. Such company is majority owned by Mr. Kwok Ho, a director and controlling shareholder of the Company. They are trading nature and aged within 3 months.

13. Accounts payable

At 31st December, 2002, the analysis by age of the accounts payable of the Group was as follows:

	As at 31st December, 2002 RMB'000	As at 30th June, 2002 RMB'000
0 – 1 month	4,948	1,516
1 – 3 months	2,604	–
Over 3 months	1,675	–
	<u>9,227</u>	<u>1,516</u>

14. Short-term bank loan – secured

The short term bank loan is interest bearing at 4.536% per annum and will be fully repayable on 23rd April, 2003. It is secured by a bank deposit of HK\$20,000,000 (equivalent to RMB21,176,000) as disclosed in Note 11 above.

15. Share capital

		Authorised Ordinary shares of HK\$0.1 each		
		<i>No. of shares</i>		
		<i>'000</i>	<i>HK\$'000</i>	<i>RMB'000</i>
As at 30th June, 2002 and 31st December, 2002		5,000,000	500,000	527,515
		Issued and fully paid Ordinary shares of HK\$0.1 each		
		<i>No. of shares</i>	<i>HK\$'000</i>	<i>RMB'000</i>
As at 1st July, 2002		1,920,000,000	192,000	203,789
Repurchase of shares	<i>Note</i>	(4,938,000)	(494)	(523)
As at 31st December, 2002		1,915,062,000	191,506	203,266

Note: During the period, the Company repurchased 4,938,000 of its own shares on The Stock Exchange of Hong Kong Limited and details of the repurchase are shown below:

Month of repurchase	Number of shares	Price per share paid		Aggregate price paid	
		Highest	Lowest	Aggregate price paid	
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$'000</i>	<i>RMB'000</i>
November 2002	4,938,000	1.22	1.17	5,951	6,301

The repurchased shares were cancelled during the period and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of RMB5,778,000 has been charged to the share premium account. An amount equivalent to the par value of the shares cancelled has been transferred from retained profits of the Company to the capital redemption reserve as shown in Note 16.

16. Reserves
For the period ended 31st December, 2002

	Share Premium RMB'000	Capital Reserve RMB'000	Capital Redemption Reserve RMB'000	Statutory Common Reserve RMB'000	Statutory Welfare Reserve RMB'000	Retained Profits RMB'000	Total RMB'000
As at 1st July, 2002	1,133,040	94,894	-	80,624	731	847,068	2,156,357
Premium on shares repurchased	(5,778)	-	-	-	-	-	(5,778)
Transfer to capital redemption reserve	-	-	523	-	-	(523)	-
Profit for the period	-	-	-	-	-	272,904	272,904
2001/2002 Final dividends paid	-	-	-	-	-	(182,490)	(182,490)
As at 31st December, 2002	1,127,262	94,894	523	80,624	731	936,959	2,240,993
Company and subsidiaries	1,127,262	94,894	523	80,624	731	915,958	2,219,992
Associated companies	-	-	-	-	-	21,001	21,001
As at 31st December, 2002	1,127,262	94,894	523	80,624	731	936,959	2,240,993

For the period ended 31st December, 2001

	Share Premium RMB'000	Capital Reserve RMB'000	Statutory Common Reserve RMB'000	Statutory Welfare Reserve RMB'000	Retained Profits RMB'000	Total RMB'000
As at 1st July, 2001	411,664	94,894	26,881	731	427,541	961,711
Issue of shares	747,226	-	-	-	-	747,226
Issuing expenses	(25,850)	-	-	-	-	(25,850)
Profit for the period	-	-	-	-	290,484	290,484
2000/2001 Final dividends paid	-	-	-	-	(148,654)	(148,654)
As at 31st December, 2001	1,133,040	94,894	26,881	731	569,371	1,824,917
Company and subsidiaries	1,133,040	94,894	26,881	731	568,752	1,824,298
Associated companies	-	-	-	-	619	619
As at 31st December, 2001	1,133,040	94,894	26,881	731	569,371	1,824,917

17. Long-term bank loans – secured

	Group and Company	
	As at	As at
	31st December,	30th June,
	2002	2002
	RMB'000	RMB'000
Long-term bank loans, repayable		
– within one year	41,293	–
– second to fifth year – secured	123,880	165,173
	165,173	165,173

On 16th January, 2002, the Company entered into a loan agreement (the “Loan Agreement”) with, inter alia, a syndicate of banks relating to a loan facility of up to US\$50,000,000 (the “Loan”). The Loan is made available to the Company by way of a revolving loan facility during the 12-month period after the date of the Loan Agreement, and any principal amount of the Loan outstanding as at the date falling 12 months after the date of the Loan Agreement will automatically be converted into a term loan and repayable during the period between 18 months and 36 months after the date of the Loan Agreement. The Loan is interest bearing at London Inter-Bank Offered Rate plus 1.875% per annum. The banking facility is secured by the Company’s interests in certain subsidiaries, including the Shareholder’s Loan advanced by the Company to its subsidiaries (As defined in note 18 of the 2002 audited annual accounts of the Company).

As at 31st December, 2002, the Company has drawn down US\$20,000,000 (equivalent to RMB 165,173,000) under the facilities and a Shareholders Loan assigned as a security of the Bank Loan amounted to HK\$250,000,000 (equivalent to RMB264,700,000).

Subsequent to the period end, the Company further drew down the remaining US\$30,000,000 of the facility and an additional shareholder’s loan of US\$45,000,000 (equivalent to RMB371,639,000) was also assigned as a security of the Bank Loan. Total Shareholder’s Loans assigned as security amounted to RMB636,339,000.

**18. Commitments***(a) Capital commitments*

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

	As at 31st December, 2002 RMB'000	As at 30th June, 2002 RMB'000
Contracted but not provided for		
– Research and development expenditures	54,100	73,500
– Purchase of fixed assets	143,640	140,646
	197,740	214,146
Authorised but not contracted for		
– Purchase of fixed assets	560,891	591,274
Total	758,631	805,420

(b) Operating lease commitments

At the end of the period, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Within one year RMB'000	In the second to fifth year inclusive RMB'000	After the fifth year RMB'000	Total RMB'000
As at 31st December, 2002				
Land and buildings	45,381	171,005	879,250	1,095,636
Others	238	114	–	352
	45,619	171,119	879,250	1,095,988
As at 30th June, 2002				
Land and buildings	44,109	170,383	949,433	1,163,925
Others	268	228	–	496
	44,377	170,611	949,433	1,164,421

19. Related party transactions

The Group entered into the following material transactions with a related party during the period:

	Six months ended	
	31st December,	
	2002	2001
	RMB'000	<i>RMB'000</i>
Fujian Chaoda Agriculture Produce Trading Company Limited		
– Purchase of fertilizers	61,714	40,037
– Purchase of plant growth regulators	1,545	1,250

- (i) The above related party is a company in which Mr. Kwok Ho, a major shareholder and a director of the Company, is a beneficial major shareholder.
- (ii) The directors are of the opinion that these transactions were conducted in the normal course of business at prices and terms no less than those charged to or contracted with other third parties.

20. Subsequent events

Apart from the draw-down of bank borrowing of US\$30,000,000 as mentioned in Note 17, the Group has the following significant event subsequent to the period end:

Pursuant to the share option scheme of the Company adopted on 19th June, 2002, options were granted to the following persons subsequent to the period end:

- (i) Mr. Kwok Ho, Chairman and executive director of the Company, and Madam Chiu Na Lai, executive director of the Company and associate of Mr. Kwok Ho to subscribe for 60,000,000 and 5,000,000 ordinary shares of the Company respectively;
- (ii) 2 other executive directors to subscribe for 7,000,000 ordinary shares of the Company; and
- (iii) Employees to subscribe for 13,500,000 ordinary shares of the Company.

The grantees are entitled to exercise their options at a price of HK\$1.66 per share during the periods commencing on 1st July, 2003 which will expire on the last day of ten years from the date of grant of the options.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Financial Performance

For the six months ended 31st December, 2002, the Group's turnover amounted to RMB651,115,000, representing an increase of 41% over the same period last year, while the gross profit margin was 69%. The 2 years tax exemption holidays of a major subsidiary of the Groups have lapsed in 2001 but the subsidiary was entitled to a 50% PRC income tax reduction for the current period. Accordingly, it was required to provide for PRC income tax at a reduced tax rate of 15%. Together with a provision of PRC income tax for an associated company, total PRC income tax provision amounted to RMB48,095,000. Profit before tax for the period was RMB320,281,000, representing an increase of 10% over the same period last year. The net profit margin for the period was 42%.

The momentum of the increase in turnover was enhanced by the expansion of sales networks to cities with high purchasing power and the improvement of major sales networks. This led to an increase in sales to 272,600 tonnes of agricultural products for the current period as compared to 187,000 tonnes recorded in the same period last year. Although the average market price of vegetables in China dropped by approximately 10% in 2002, the Group recorded substantial growth of over 46% and 41% respectively in sales volume and sales revenues during the period. This reflects the prime quality and the competitive edge of the Group's products.

Production Bases

The Group's aggregate areas of farmland in China increased from 92,629 mu (6,175 hectares) as at 31st December, 2001 to 131,675 mu (8,778 hectares) as at 31st December, 2002, representing an increase of 42%. It also represented an increase of 9% as compared to the 120,725 mu (8,048 hectares) as at 30th June, 2002. As at 31st December 2002, the Group operated a total of 35 production bases covering 12 various provinces and cities, including Shannxi, Hainan, Liaoning, Fujian, Shandong, Guangdong, Jiangsu, Zhejiang, Hubei, Beijing, Shanghai and Tianjin in China.

Sales Performance

During the period ended 31st December, 2002, the Group's major sales channels were wholesale and export sales (by means of direct sales to overseas customers and domestic sales to PRC trading companies), which accounted for 62% and 32% respectively of the Group's total turnover. With the ever increasing demand for high quality vegetables and fruits from both domestic and export markets, the Group will continue to focus on the sales networks in cities with high purchasing power in order to achieve higher profit margins. As Japan is China's major export country, the Group's subsidiary in Japan commenced operation in late 2002. The Group believes that with the establishment of a subsidiary in Japan and can bring positive contribution to the expansion of the Group's

export business. The “Agricultural Trading Markets into Supermarkets”, being encouraged by the local government, was also implemented at a steady pace. As at 31st December, 2002, five supermarkets have commenced operations during the period under review. This project has realised a “one step” delivery of agricultural products and by-products from the production bases to the end users. This “one step” delivery concept to provide agricultural products fresh from the farmlands directly to the sales outlets will enable the customers to enjoy fresh and quality products, and improve their living standards as a result of this speedy and modern logistics system.

Investment Projects Performance

Performance of the Group’s major investment projects during the period under review are summarized as follows:

- a. As at 31st December, 2002, the Group’s farmlands have increased by 39,046 mu, representing an increase of 42% as compared to that as at 31st December, 2001. During the period, infrastructure facilities were improved on a much larger scale on the production bases, and the Group carried out proactive selection and storage of high quality spring seeds. The farmlands are expected to bring rich harvests in this financial year.
- b. Export sales of vegetables to the Asian region recorded continuous growth, with Japan being a major import country in the region. In view of these business opportunities, the Group established its subsidiary in Tokyo, Japan in August 2002. The establishment of the subsidiary is expected to strengthen the export sales of the Group and thus resulted in a wider exposure of the Chaoda brandname.
- c. In the period ended 31st December, 2002, the Group implemented its “Agricultural Trading Markets into Supermarkets” project with the establishment of 5 supermarkets in Fuzhou, which substantially strengthened the end-user base and Chaoda’s sales networks. This core project will be gradually carried out in 2003 in order to enhance customers’ recognition of the brandname “Chaoda”.
- d. In the period ended 31st December, 2002, the Group’s tea plantations developed earlier in Fujian started the cultivation of green organic tea. These plantations are intended to become first class domestic production bases for organic tea. Tea is a cultural art with a long history in China. Tea is also a daily necessity with a strong demand, especially for medium to high end quality tea. With the vast potential for market development in Europe and America and the growing trend for organic tea consumption in China, the prospects for the organic tea market is extremely promising.



PROSPECTS

Agriculture plays an important role in China's economy. The huge 1.3 billion population guarantees an enormous consumer market in which food consumption accounts for a significant share. The management strongly believes that, with the steady growth of the economy and the improvement in living standard and education level of the people, the demand for Chaoda's organic, green, healthy and high quality vegetables and fruits will increase substantially.

The rural reform and agricultural modernization have been given top priority by the Chinese Government in the future agriculture development. With China's accession to WTO, Chaoda can show its advantages in this labor-intensive vegetable farming business. The export sales is expected to growth rapidly. This, coupled with our leading edge in organic and green agricultural technology, will bring unlimited business opportunity to Chaoda.

Infrastructural construction (such as irrigation works, road construction, etc) on farmland and agricultural facilities (such as greenhouse facilities, scaffolding facilities, etc.) laid foundation for agricultural modernization. Effective and modernised agricultural facilities, drainage systems and irrigation systems not only can guarantee normal cultivation but also can help controlling the temperature and moisture. In addition, it can protect plants from bad weather and serve as the best means to fight natural disasters. The facilities also allow the Group to produce various agricultural products round the year, increase production volume and the harvest ratios, guarantee productivity and quality, and thus enhance the Group's competitive edge and operation efficiency.

Food processing only accounts for 30% of China's total agricultural output, as compared to 60% or above in developed countries. The management believes that by developing the food processing operations, Chaoda's business will be enhanced significantly. The Group is planning to establish food processing factories with international enterprises in order to benefit from their vast experience and advanced technology. The food processing factories will use Chaoda's agricultural products as the major raw materials and the production process will strictly comply with ISO standards such as Hazardous Analysis Critical Control Points ("HACCP") and Good Manufacturing Practices ("GMP"). The food processing factories not only can enhance consumers' awareness of "Chaoda" brand and add value to its agricultural products but also can help can Chaoda to diversify, and increase Chaoda's market share in the international market by meeting the huge export demand.

Agricultural technology is changing rapidly everyday. New technology and new products are the essential weapons of an enterprise. With an eye on advanced science and technology, the Group is proactively engaging in R&D and the application of new technology to new products. The Group highly values the continued development of advanced technology and the construction of specific science and technology parks. The Group also set up “testing ground” in its production bases for the application of scientific research in mass production. These measures not only reduce the production costs of vegetables and fruits, but also enrich the variety of the Group’s products. Apart from effectively enhancing productivity, quality and the competitiveness of our organic green vegetables and fruits, the new technology also brings about fruitful rewards to the Group.

China is a major agricultural country and enterprises require professionals with top knowledge of agricultural technology, management and operation skills. The Group treasures its existing human resources and provides in-house training to its employees. The Group also recruits experts who are well-experienced in farming, management and operations. The Group’s strong commitment to employees development and training will ensure further advancement of the Group.

The “Chaoda Model” has been widely and rapidly recognized throughout the industry. The Group was selected as one of the “State-level Agricultural Leading Enterprise” (農業產業化國家重點龍頭企業) during the joint session of the PRC Agricultural Industrialization Meeting (中國農業產業化聯席會議) in December 2002. The management hopes that promoting the “Chaoda Model” in the international market can help the Group to expand its scope of agricultural development and finally enhance its profitability.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has maintained a solid financial position to underpin its operation. As at 31st December, 2002, the Group had cash and bank balances amounting to RMB661,920,000, and total borrowings of RMB175,173,000. The Group generated strong cash flows from operations for the six months ended 31st December, 2002. Net cash inflow from operations for the period was RMB386,667,000 as compared to RMB265,318,000 for the same period last year.



In January 2002, the Group entered into a loan agreement (the “Loan Agreement”) with inter alios, a syndicate of banks relating to a loan facility of up to US\$50,000,000 (the “Loan”). The interest rate is at London Inter-Bank Offered Rate plus 1.875%. The Loan will be made available to the Company by way of a revolving loan facility during the 12 month period after the date of the Loan Agreement, and any principal amount of the Loan outstanding as at the date falling 12 months after the date of the Loan Agreement will automatically be converted into a term loan with a final repayment date falling 36 months after the date of the Loan Agreement. As at 31st December, 2002, the Group has an un-utilized banking facilities amounting to US\$30,000,000. On 3rd January, 2003, the Company further drew down the un-utilized balance of US\$30,000,000.

As at 31st December, 2002, the Group’s gearing ratio was 6.2% which is calculated by the division of total borrowings by total assets. The Group’s liquidity ratio was 3.2, reflecting the presence of sufficient financial resources.

Since the exchange rate fluctuation between Hong Kong dollar and Renminbi is very small, the foreign exchange risk is very low and no hedging has been carried out.

STAFF AND REMUNERATION POLICIES

As at 31st December, 2002, the Group employed 10,557 staff member, of which 8,136 are workers working on the Group’s farmlands. Employee salaries are determined at a competitive level, other staff benefits include the Hong Kong Mandatory Provident Fund, insurance, education subsidies, training programmes and share option scheme.

The share option scheme adopted by the Company on 19th June, 2002 provided that the Board of Directors may grant options to any participant (as defined in the share option scheme) to subscribe for the shares of the Company pursuant to the provisions of the scheme. Pursuant to the share option scheme, options were granted to Directors and Employees subsequent to the period end as follows:

Grantee	Date of Grant	Exercise Period	Exercise Price Per Share (HK\$)	No of Share in respect of Options
Directors				
Kwok Ho	28/1/2003	1/7/2003-27/1/2013	1.66	20,000,000
		1/7/2004-27/1/2013	1.66	20,000,000
		1/7/2005-27/1/2013	1.66	20,000,000
Ip Chi Ming	28/1/2003	1/7/2003-27/1/2013	1.66	5,000,000
Lee Yan	28/1/2003	1/7/2003-27/1/2013	1.66	2,000,000
Chiu Na Lai	28/1/2003	1/7/2003-27/1/2013	1.66	5,000,000
Employees	28/1/2003	1/7/2003-27/1/2013	1.66	13,500,000

CORPORATE GOVERNANCE

The Group endeavours to maintain a high corporate governance level and to enhance its transparency. The Group decides to strengthen communications with its shareholders and investors so as to ensure every major decision making will be accountable to the shareholders and will be in the interest of all shareholders.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31st December, 2002 (2001: Nil).

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES**

As at 31st December, 2002, the interests of the Directors and Chief Executives of the Company in the equity and debt securities of the Company or any of its associated corporations as recorded in the register kept by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Company	Name of Director	Personal Interests	Number of Shares			Total Shares
			Family Interests	Corporate Interests		
The Company	Mr. Kwok Ho	-	-	1,046,000,000	1,046,000,000 <i>(Note 1)</i>	
The Company	Mr. Ip Chi Ming	-	-	52,000,000	52,000,000 <i>(Note 2)</i>	

Notes:

1. Held through Kailey Investment Ltd. in which Mr. Kwok Ho has 900 shares and his spouse, Madam Chiu Na Lai has 100 shares representing 90% and 10% respectively of the total issued share capital of Kailey Investment Ltd.
2. Held through Young West Investments Ltd. which is wholly-owned by Mr. Ip Chi Ming.

Save as disclosed above and the details of the share option scheme mentioned above, none of the Directors, Chief Executives or their respective associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance and none of the Company's Directors, Chief Executives or their respective spouse, or children under 18 years of age were granted or had exercised any right to subscribe for shares or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, so far as is known to the directors of the Company, the following person (other than the directors or chief executives of the Company whose interests are disclosed above) was recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance as being directly or indirectly interested in 10% or more of the nominal value of the issued share capital of the Company:

Name of Shareholder	Number of Shares	% of issued share capital
Kailey Investment Ltd. (<i>Note</i>)	1,046,000,000	54.62%

Note: Kailey Investment Ltd. is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 90% by Mr. Kwok Ho and as to 10% by Madam Chiu Na Lai. Mr. Kwok Ho is entitled to exercise 90% of the voting powers at general meetings of Kailey Investment Ltd.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the period under review, the Company purchased 4,938,000 shares of HK\$0.1 each in the capital of the Company in November 2002 at prices ranging from RMB1.23 (HK\$1.17) to RMB1.29 (HK\$1.22) per share on the Stock Exchange. Such purchases involved a total cash outlay of approximately RMB6,301,000 (HK\$5,951,000) and were for the purpose of enhancing the Company's return on equity.

Save as disclosed above, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the six months ended 31st December, 2002.



DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

As at 24th March, 2003, being the date of this report, circumstance which will trigger events of default of the Company under the banking facility document as far as the obligation of the controlling shareholder is concerned is as follows:

On 16th January, 2002, the Company had entered into a loan agreement (the "Loan Agreement") with, inter alias, a syndicate of banks relating to a loan facility of up to US\$50,000,000 (the "Loan"). The Loan will be made available to the Company by way of a revolving loan facility during the 12-month period after the date of the Loan Agreement, and any principal amount of the Loan outstanding as at the date falling 12 months after the date of the Loan Agreement will automatically be converted into a term loan with a final repayment date falling 36 months after the date of the Loan Agreement. Under the Loan Agreement, it would be an event of default if Kailey Investment Ltd., the controlling shareholder of the Company as defined in the Listing Rules, ceases to be the single largest controlling shareholder of the Company. If such an event of default occurs, all amounts outstanding in respect of the Loan would become immediately due and payable by the Company.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive directors of the Company, namely, Mr. Wong Kong Chi and Professor Lin Shun Quan. The Audit Committee has reviewed with the Company's management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial matters including the review of the condensed accounts. The Group's independent auditors, PricewaterhouseCoopers and Charles Chan, Ip & Fung CPA Ltd. have carried out a review of the unaudited interim accounts in accordance with the Statement of Auditing Standards 700 issued by Hong Kong Society of Accountants.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period for the six months ended 31st December, 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

On behalf of the Board

Kwok Ho
Chairman

Hong Kong, 24th March, 2003