

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Financial Performance

For the six months ended 31st December, 2001, turnover for the Group amounted to RMB461,401,000, representing a 62% increase as compared to the same period in the previous year; net profit for the period was RMB290,484,000, representing an increase of 56% as compared to the same period in the previous year. The gross profit margin was maintained at 75% while the net profit margin was 63%.

The increase in turnover was mainly due to the increase in production area from the growing number of production bases which in turn led to sales of 186,963 tonnes of agricultural produce as compared to 129,000 tonnes as recorded in the same period in the previous year. As at 31st December, 2001, the Group had over 130 different types of produces for sale. In addition, there was an increase in average unit selling price among the agricultural produces compared to the same period in the previous year.

Agriculture is a seasonal industry. According to the Group's past records, performance in the second half of the financial year was usually stronger than the first half's.

### Production Bases

As at 31st December, 2001, the aggregate area of the Group's production bases in China amounted to 92,629 mu (6,175 hectares), representing an increase of 94% as compared to 47,830 mu (3,189 hectares) as at 31st December, 2000. It also represents an increase of 48% when compared to 62,429 mu (4,162 hectares) as at 30th June, 2001. In total, the Group operates 32 production bases widely spread across northern and southern China. This includes the existing provinces of Fujian, Liaoning, Shandong, Jiangsu, Guangdong, Hainan, Shaanxi and Shanghai city, and, as well as those new production bases added during the review period in Zhejiang Province, Guangxi Province and Beijing city and Tianjin city. Production areas now cover 12 provinces or cities in China.

## **Sales Performance**

Sales for domestic consumption contributed 65% of total turnover while export sales by means of direct sales to overseas customers and sales locally to the PRC trading companies represented 35% of turnover for the period under review.

Based on its principal strategy to rapidly expand the domestic market, the Group is focusing on promoting sales among the high consumption cities, including Beijing and Tianjin, Shanghai, Nanjing and the areas along the Yangtze River. During the period under review, strong growth in sales was recorded in Shanghai and Nanjing.

Another important focus of the Group's agricultural produce business is the development of export markets. For the period under review, the Group expanded direct exports, and is successfully entering into the European and American markets with several products being exported to more than 10 countries and regions, including Japan, South Korea, the United States, Canada, the United Kingdom, France, Germany, Malaysia, Thailand, Hong Kong etc.

## **Livestock Business**

The Group has added a pastureland in Shandong in the second half of the previous financial year. This vast pastureland enlarges the breeding land for reproduction expansion that increases the number of breeding goats. The reproduction of Boer goat has fully adopted the "Embryo Transfer Technology" that maintained the origin quality attributes. Moreover, it enhances the breeding goats' adaptation, heat and disease resistance and at the same time, solving the limitation of time and quality problem caused by natural breeding of pure-bred goats. This enabled the Group to reproduce pure-bred Boer goats in institutionalized scale, to substitute the imported ones, thereby, reduced the production costs and increased effectiveness. In addition, the application of "cross breeding technology" between Boer goats and local goats, has greatly improves the characteristics and the meat tenderness of the local goats, preserves the Boer goats' meat quality, meat volume and adaptation ability. Under the current increasing mutton consumption in China, the "Cross Breeding Technology" was applied timely to match this growing trend, the selling volume cannot be underestimated. At the same time, during the period under review, the Group has also imported Dorper Goat, a top quality overseas species, the world's best mutton goat species. It is famous for its excellent adaptation ability, strong reproduction rate, high weight gain, meat tenderness and good quality. With its promising market prospect and good profitability, Dorper Goat will lead the Group's livestock business into a new era.

## Investment Project Performance

During the period under review, the Group started investment in four major projects, details of which are as follows:

- a. In July, 2001, the Group acquired a 49% interest in Newasia Global Limited, which holds a wholly owned subsidiary, to operate a Mandarin orange farm in Beihai, Guangxi Province. This plantation mainly produces Mandarin oranges originating from California and are ripe in summer. Most of the Mandarin orange trees have been planted for four to five years and are now entering their first year of harvest. The quantities of fruit produced are expected to increase year over year. The peak harvest period will be in 2007 and then high production level will last for a period of about 30 years.
- b. As at 31st December, 2001, in Nanjing branch the original area of 3,000 mu farmland is expanded to 14,000 mu. In this portion of land, 9,000 mu farmland has been producing vegetables for sale while the rest is undergoing the construction of its farmland infrastructure and facilities. This farmland is expected to be extensively harvested well in second half of the current financial year.
- c. As at 31st December, 2001, 7,000 mu (2,000 mu situated in Tianjin inclusive) farmland in Beijing branch have been developed. During this interim period, the construction of its farmland infrastructure and facilities are in progress, together with high quality seeds selection and the storage of seeds for Spring. Beijing farmland will be expected to be harvested well in the current financial year.
- d. The installation of the first batch of 150 green stands in Shanghai is under progress. Upon the completion of the green stands the Group's retail sales network will be substantially strengthened, further enhancing customer recognition of the "Chaoda" brand.

Finally, the Group has also received numerous recognition since its listing in December 2000. Apart from being included as one of the constituent stocks in "The 200-stock on the Hang Seng Composite Index Series" in October 2001, the Group received Forbes Magazine's "World's Best 200 Small Companies" award in November 2001 as well as Asiamoney Magazine's "Best Newly Listed Companies in 2001 for China" in January 2002. The Board of Directors would like to express its deepest thanks for all this support, so that the Group is elevated into a higher international capital platform.