



Furthermore, many producers in the PRC are facing agricultural produce-related safety problems, such as poison rice, exceedance of pesticide residue on vegetables; while in the developed countries, much concern is placed on the issue of agricultural produce and health. Agricultural produce safety and agricultural produce and health clearly show us the different levels of requirement for agricultural produce quality in the market. Amidst such a mainstream environment in the PRC, Chaoda successfully set a right direction from the beginning: "Take Green Road, Create Ecological Civilisation". In these few years, we have established a comprehensive quality control system for agricultural produce, realizing unpolluted control of agricultural produce along the entire process from cultivation to consumption and creating a "Green and Organic Ecological Industrial Chain".

As Chaoda strives to become one of the world-class recognized brands, we consider ourselves responsible for raising rural incomes. We strive to become the role model of being the most competitive supplier of agricultural produce in China, so as to promote the international reputation and image of the PRC's agricultural produce.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has maintained a solid financial position to underpin its operation. As at 31 December 2004, the Group had cash and bank balances amounting to RMB807,663,000. The Group generated strong cash flows from operations for the six months ended 31 December 2004. Net cash flow from operations for the period was RMB587,049,000 as compared to RMB400,802,000 for the same period last year.

As at 31 December 2004, the Group's gearing ratio was 3.7%. This is based on the division of total borrowings by total assets. The Group's current ratio was 5.0 times, reflecting the presence of sufficient financial resources.

Since the exchange rate fluctuations between the Hong Kong dollar or United States dollar and Renminbi are immaterial, the foreign exchange risk is immaterial and no hedging has been carried out.

As at 31 December 2004, the Group had outstanding capital commitments amounting to RMB407,924,000, of which, commitments of RMB258,627,000 are contracted but not provided for, the remaining commitments of RMB149,297,000 have been authorised but not contracted for, in respect of the purchase of fixed assets and research and development expenditure.

As at 31 December 2004, a corporate guarantee executed by a subsidiary was pledged by the Group as the security for short-term loans. Save as disclosed above, the Group did not have any material contingent liabilities.

STAFF AND REMUNERATION POLICIES

Remuneration Policy for Employees

As at 31 December 2004, the Group employed 11,638 employees, of which 9,847 were workers on the Group's farmlands. Employees' salaries are determined at a competitive level. They are eligible for various components of total remuneration by reference to their duties and responsibilities with the Group and the market rate. These components include basic salaries, discretionary bonus and share option. Other employee benefits mainly include pension arrangements, insurance, education subsidies and training programmes.



Remuneration Policy for Executive Directors

The executive directors' salaries are determined at a competitive level. They are eligible for various components of total remuneration by reference to their duties and responsibilities with the Group and the market rate. These components include basic salaries, discretionary bonus and share option. The basic salaries will be reviewed by the Board from time to time with not more than 20% increment per annum.

A share option scheme ("Scheme") was adopted pursuant to a resolution passed at the extraordinary general meeting of the Company held on 19 June 2002. During the six months period ended 31 December 2004, no options were granted to the relevant participants under the Scheme. Options in respect of 159,717,500 shares (after adjustment) were granted to the relevant participants under the Scheme as at 31 December 2004.

The Group does not have, has never had, any long-term incentive schemes.

Remuneration Policy for Non-Executive Directors

The remuneration, comprising directors' fee, of non-executive directors is determined by the Board from time to time by reference to their duties and responsibilities with the Company and the market rate. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties.

CHARGE ON ASSET

The Company has entered into an agreement relating to a loan facility of up to US\$21,000,000 (RMB173,431,440) (the "Loan") on 30 April 2004 with a syndicate of banks. The facility was secured by the shares of certain subsidiaries and will be repayable within 36 months after the drawdown date.

On 24 January 2005, the Loan was fully repaid by the Company.

USE OF SHARE ISSUE PROCEEDS

As at 15 January 2004, the Company had raised funds of approximately HK\$683,000,000 (approximately equivalent to RMB723,160,400) by placing 280,000,000 ordinary shares at HK\$2.50 per share (the "Share Issue"). It was the intention of the Group to use approximately HK\$50,000,000 (approximately equivalent to RMB52,940,000) of the net proceeds for land leasing costs in connection with the expansion of the Group's production bases, to use approximately HK\$350,000,000 (approximately equivalent to RMB370,580,000) of such net proceeds for the construction of irrigation systems and infrastructure facilities at the Group's production bases; and approximately HK\$283,000,000 (approximately equivalent to RMB299,640,400) of such net proceeds for general working capital.

As at 1 July 2004, the balance of unused share issue proceeds amounted to approximately HK\$633,000,000 (approximately equivalent to RMB670,220,400).

As at 31 December 2004, the Group had fully utilized the aforementioned unused share proceeds for the purposes as intended in the Share Issue.