HIGHLIGHTS

- Turnover increased by 62% to approximately RMB461 million
- Profit for the period increased by 56% to approximately RMB290 million
- Gross profit margin was maintained at 75%
- Shareholders' funds reached approximately RMB2,029 million

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, 2001 of the Company and its subsidiaries (collectively the "Group"). The consolidated profit and loss account, cash flow statements and statement of recognised gains and losses for the six months ended 31st December, 2001 and the consolidated balance sheet of the Group as at 31st December, 2001 (the "interim financial statements"), which are all unaudited and certain are condensed along with selected explanatory notes, are set out below and have been reviewed by the Company's Audit Committee and the Company's independent auditors, PricewaterhouseCoopers and Charles Chan, Ip & Fung CPA Ltd.

INTERIM FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 31st December,	
		2001	**2000**
	Note	*RMB'000*	*RMB'000*
Turnover			
Sales of crops		452,067	275,671
Sales of livestock		8,240	6,718
Sales of ancillary food products		1,094	2,177
		461,401	284,566
Cost of sales		(115,815)	(69,588)
Gross profit		345,586	214,978
Other revenues		9,424	2,579
Selling and distribution expenses		(40,673)	(20,902)
General and administrative expenses		(24,608)	(8,853)
Net other operating income/(expenses)		1,056	(60)
Operating profit	4	290,785	187,742
Finance costs		(920)	(313)
Share of results of an associated company		619	—
Profit before taxation		290,484	187,429
Taxation	5	—	(1,652)
Profit for the period		290,484	185,777
Earnings per share	6	RMB17.4 cents	RMB15 cents
Dividends	7	148,654	20,000

UNAUDITED CONSOLIDATED BALANCE SHEET

	Note	As at 31st December, 2001 RMB'000	(Restated) As at 30th June, 2001 RMB'000
Fixed assets		292,545	135,192
Construction-in-progress		171,380	128,160
Deferred development costs		58,257	49,443
Long-term prepaid rental		305,375	239,436
Other long-term deposits		2,150	2,150
Interest in an associated company	8	119,193	—
Current assets			
Inventories, at cost		45,269	28,325
Accounts receivable	9	37,992	25,150
Other receivables, deposits and prepayments		69,453	58,501
Bank balances and cash	10	1,145,695	577,169
		1,298,409	689,145
Current liabilities			
Amount due to a related company	11	3,752	2,352
Other payables and accrued charges		27,584	21,026
Dividend payable	7	148,654	—
Short term bank loans - secured	10	—	50,000
Taxation		38,613	38,613
		218,603	111,991
Net current assets		1,079,806	577,154
		2,028,706	1,131,535
Financed by:			
Share capital	12	203,789	169,824
Reserves	13	1,824,917	961,711
Shareholders' funds		2,028,706	1,131,535

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Note	Six months ended 31st December, 2001 RMB'000	2000 RMB'000
Net cash inflow from operating activities		255,894	161,340
Net cash inflow from returns on investments and servicing of finance		8,503	2,441
Net cash outflow from investing activities			
Net cash inflow from acquisition of subsidiaries		—	1,136
Net cash outflow from acquisition of an associated company		(107,156)	—
Cash outflow from purchase of fixed assets		(21,195)	(50,479)
Cash outflow from payment of construction-in-progress		(188,740)	(53,027)
Cash outflow from payment of long-term prepaid rental		(72,400)	(40,448)
Net cash outflow from other investing activities		(11,720)	(31,749)
		(401,211)	(174,567)
Net cash inflow from financing activities			
Proceeds from issue of shares	12	781,190	645,331
Issuing expenses	12	(25,850)	(63,843)
New bank loans		—	45,000
Repayment of bank loan		(50,000)	(15,000)
Bank deposits pledged for banking facilities		—	(53,070)
Return of deposits pledged for banking facilities	10	53,070	—
Cash outflow from other financing activities		—	(1,800)
		758,410	556,618
Increase in cash and cash equivalents		621,596	545,832
Cash and cash equivalents at 1st July		524,099	12,700
Cash and cash equivalents at 31st December		1,145,695	558,532
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		1,145,695	611,602
Less: bank deposits pledged for banking facilities		—	(53,070)
Cash and cash equivalents at 31st December		1,145,695	558,532

UNAUDITED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

		Six months ended 31st December,	
		2001	**2000**
	Note	*RMB'000*	*RMB'000*
Total recognised gains — profit for the period		290,484	185,777
Capital reserve arising from acquisition of subsidiaries	13	—	15,044
Contributed surplus arising from the group reconstruction	13	—	16,567
		290,484	217,388

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. **Basis of preparation**

The interim consolidated financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants (as applicable to condensed interim financial statements) 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 financial statements should be read in conjunction with the financial statements for the year ended 30th June, 2001.

2. **Principal Accounting Policies**

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 30th June, 2001 apart from the following:

(a) The Group adopted SSAP No. 10 "Accounting for investments in associates" following its acquisition of an associated company during the period.

(b) The Group changed certain of its accounting policies following its adoption of the following new SSAPs which are effective for accounting periods commencing on or after 1st January, 2001:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

The major changes to the accounting policies and the effect of adopting such policies are summarized below:

Investment in associated company

An associated company is a company, not being a subsidiary, in which an equity interest is held for long-term and over whose management significant influence is exercised.

The consolidated profit and loss account includes the Group's share of the results of an associated company for the period, and the investment in an associated company in the consolidated balance sheet includes the Group's share of the net assets of the associated company.

Negative goodwill arising from the acquisition of the associated company represents excess of the fair values ascribed to the net assets of the associated company at the date of acquisition over the purchase consideration. Negative goodwill is presented as a reduction from the share of the net assets of the associated company under the investment in associated company in the consolidated balance sheet and is amortised over 20 years, being the remaining weighted average useful life of the non-monetary assets of the associated company. The amortisation of negative goodwill is recognised into the Group's profit and loss account.

Events after balance sheet date

In accordance with SSAP 9 (revised), the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability. This change in accounting policy has been applied retrospectively and the comparatives presented have been restated to conform to the new policy.

As set out in Note 13, opening retained earnings of the Group as at 1st July, 2000 and 2001 have respectively increased by RMB20 million and RMB123.8 million, being the reversal of the provision of the proposed final dividend for the respective year which were previously recorded as a liability on the balance sheet date.

Segment reporting

The Group discloses segment revenue and results as defined under SSAP 26 in Note 3 to these condensed interim financial statements. The Group has determined that business segmental information is the primary reporting format and geographical information is the secondary reporting format.

3. **Principal activities of operations**

The Group is principally engaged in the growing and sale of crops, breeding and sale of livestock and sale of ancillary food products. The results of the major business activities for the six months ended 31st December, 2000 and 2001 are summarised below:

	Six months ended 31st December, 2001			
	Growing and sale of crops	**Breeding and sale of livestock**	**Sale of ancillary food products**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	452,067	8,240	1,094	461,401
Cost of sales	(110,875)	(4,123)	(817)	(115,815)
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				1,056
Operating profit				290,785
Finance costs				(920)
Share of results of an associated company				619
Profit before taxation				290,484
Taxation				—
Profit for the period				290,484

	Six months ended 31st December, 2000			
	Growing and sale of crops	**Breeding and sale of livestock**	**Sale of ancillary food products**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	275,671	6,718	2,177	284,566
Cost of sales	(66,319)	(1,422)	(1,847)	(69,588)
Gross profit	209,352	5,296	330	214,978
Unallocated items:-				
Other revenues				2,579
Selling and distribution expenses				(20,902)
General and administrative expenses				(8,853)
Net other operating expenses				(60)
Operating profit				187,742
Finance costs				(313)
Profit before taxation				187,429
Taxation				(1,652)
Profit for the period				185,777

There are no sales transactions between the business segments.

Growing and sale of crops is the Group's primary business segment. The turnover, operating profit and total assets attributable to this business segment accounted for over 90% of the Group's consolidated totals for the periods ended 31st December, 2000 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 profit and total assets attributable to other geographical areas are both less than 10% of the Group's consolidated totals. Consequently, no geographical segment analysis is presented.

4. **Operating profit**

Operating profit is stated after crediting and charging the following:

	Six months ended 31st December, 2001 *RMB'000*	2000 *RMB'000*
Crediting		
Amortisation of negative goodwill	4,068	—
Interest income	9,424	2,579
Charging		
Depreciation of owned fixed assets	6,242	1,242
Operating lease expenses		
— land and buildings	13,749	7,067
— motor vehicles	194	242
Staff costs	40,169	24,847
Amortisation of deferred development costs	1,187	300
Amortisation of long-term prepaid rental	3,291	1,721

5. **Taxation**

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

	Note	Six months ended 31st December, 2001 *RMB'000*	2000 *RMB'000*
PRC income tax	(i)	—	1,652
Hong Kong profits tax	(ii)	—	—

(i) No provision for PRC income tax has been made, as there are no estimated assessable profits for the subsidiaries operated in the PRC during the period. PRC income tax for the period ended 31st December, 2000 represented tax charges on the assessable profits of the PRC subsidiaries of the Group.

(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) No taxation attributable to the associated company is shared by the Group as there is no estimated assessable profit for the associated company during the period.

6. **Earnings per share**

The calculation of the earnings per share is based on the profit for the period of RMB290,484,000 (2000: RMB185,777,000) and the weighted average number of 1,669,565,217 (2000: 1,236,956,522) shares in issue during the period.

7. **Dividends**

	Six months ended 31st December, 2001	2000
	RMB'000	*RMB'000*
2000/2001 final, declared, of HK$0.073 per share (1999/2000 final, paid)	148,654	20,000

The directors do not recommend a payment of dividends for the six months ended 31st December, 2001 (2000: nil).

8. **Interest in an associated company**

	As at 31st December, 2001	As at 30th June, 2001
	RMB'000	*RMB'000*
Share of net assets	270,492	—
Negative goodwill on acquisition less accumulated amortisation	(158,649)	—
	111,843	—
Deposit paid for subscription of new shares in associated company	7,350	—
	119,193	—

Pursuant to a share purchase Agreement (the "Agreement"), the Group acquired 49% interest in Newasia Global Limited ("Newasia") from an independent third party at a consideration of RMB107.2 million at 26th July, 2001. Newasia holds a PRC wholly-foreign-owned enterprise which operates a citrus farm in Guangxi Province, the PRC. The acquisition was completed on 26th July, 2001. In addition, pursuant to the Agreement, the Group and the majority shareholder of Newasia have also undertaken to invest further funds in the aggregate amount of RMB15 million in Newasia by way of subscription for new shares in proportion to their respective shareholdings in Newasia on or before 30th June, 2002. Accordingly, the Group paid a deposit of RMB7.35 million for its 49% share of the subscription during the period.

9. **Accounts receivable**

The Group grants a credit term of 30 days (2000: 30 days) to the majority of its customers and all the Group's accounts receivable as at 31st December and 30th June, 2001 are within such credit term.

10. **Bank balances and cash**

Included in the last year bank balances and cash is a foreign currency bank deposit of HK$49,999,790 (equivalent to RMB53,070,000) which was previously pledged as security for the Group's short term banking facilities amounting to RMB50,000,000. The bank loan was fully repaid during the period and the deposit was returned accordingly.

11. **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.

12. **Share capital**

	Authorised		
	Ordinary shares of HK$0.1 each		
	No. of shares'000	*HK$'000*	*RMB'000*
As at 30th June, 2001 and 31st December, 2001	5,000,000	500,000	527,515

	Issued and fully paid		
	Ordinary shares of HK$0.1 each		
	No. of shares'000	*HK$'000*	*RMB'000*
As at 30th June, 2001	1,600,000	160,000	169,824
Issue and fully paid *(Note)*	320,000	32,000	33,965
As at 31st December, 2001	1,920,000	192,000	203,789

Note: By way of a top-up placing in November 2001 as described in the announcement issued by the Company on 7th November, 2001, Kailey Investment Ltd. ("Kailey") (a company owned as to 90% by Mr. Kwok Ho, the Chairman of the Group) placed 320,000,000 existing shares in the Company at a placing price of HK$2.30 per share with independent investors. The Company at the same time issued the same number of new shares at a subscription price of HK$2.30 per share to Kailey. Approximately HK$711.6 million (equivalent to approximately RMB755.3 million) net of related expenses was raised from this issue of shares.

13. **Reserves**

	Year ended 30th June, 2001					
	Share premium	**Capital reserve**	**Statutory Common reserve**	**Statutory Welfare reserve**	**Retained profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1st July, 2000 as previously reported	—	63,283	—	566	13,766	77,615
Adoption of SSAP 9 (Revised) *(Note 2)*	—	—	—	—	20,000	20,000
As at 1st July, 2000 as restated	—	63,283	—	566	33,766	97,615
Acquistion of subsidiaries	—	15,044	—	—	—	15,044
Contributed surplus arising from group reconstruction	—	16,567	—	—	—	16,567
Issue of shares upon listing	602,875	—	—	—	—	602,875
Issuing expenses	(63,843)	—	—	—	—	(63,843)
Capitalisation issue	(127,368)	—	—	—	—	(127,368)
Profit for the year	—	—	—	—	440,821	440,821
1999/2000						
Final Dividend paid	—	—	—	—	(20,000)	(20,000)
Appropriation	—	—	26,881	165	(27,046)	—
As at 30th June, 2001	411,664	94,894	26,881	731	427,541	961,711

	Six months ended 31st December, 2001					
	Share premium	**Capital reserve**	**Statutory Common reserve**	**Statutory Welfare reserve**	**Retained profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1st July, 2001 as previously reported	411,664	94,894	26,881	731	303,733	837,903
Adoption of SSAP 9 (Revised) *(Note 2)*	—	—	—	—	123,808	123,808
As at 1st July, 2001 as restated	411,664	94,894	26,881	731	427,541	961,711
Issue of shares *(Note 12)*	747,226	—	—	—	—	747,226
Issuing expenses	(25,850)	—	—	—	—	(25,850)
Profit for the period	—	—	—	—	290,484	290,484
2000/2001						
Final Dividend declared	—	—	—	—	(148,654)	(148,654)
As at 31st December, 2001	1,133,040	94,894	26,881	731	569,371	1,824,917

14. **Commitment**

(a) *Capital commitments*

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

	As at 31st December, 2001 *RMB'000*	**As at 30th June, 2001** *RMB'000*
Contracted but not provided for		
— Research and development expenditure	64,000	74,000
— Purchase of fixed assets	309,244	351,859
	373,244	425,859
Authorised but not contracted for		
— Purchase of fixed assets	759,214	—
Total	1,132,458	425,859

(b) *Operating lease commitments*

As at 31st December, 2001, 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*
Land and buildings	43,230	160,632	897,856	1,101,718
Others	398	352	—	750
	43,628	160,984	897,856	1,102,468

15. **Related party transactions**

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

	Six months ended 31st December, 2001	2000
	RMB'000	*RMB'000*
Fujian Chaoda Agriculture Produce Trading Company Limited		
— Purchase of fertilizers	40,037	21,364
— Purchase of plant growth regulators	1,250	749
Beijing Chaoda Yingjin Bio-tech Company Limited		
— Purchase of seeds	—	270

(i) The above related parties are companies in which Mr. Kwok Ho 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.

16. **Subsequent event**

At 16th January, 2002, the Company obtained a long-term loan facility of up to US$50 million from a syndicate of banks. The facility has not been utilized up to the date of the interim report. The loan facility is secured by the Group's interests in certain subsidiaries.

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 comsumption 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.

PROSPECTS

The Group consistently puts emphasis on the research and development of production technologies. Extensive research and development were conducted with regard to the planting of selected organic green fruits and vegetables, organic cultivation technologies, preservation and processing of agricultural produce. With the application of these new technologies and new products in the plantation, preservation and processing of the Company's organic green fruits and vegetables produce, the production cost will be reduced and the output, quality, and competitiveness of the same will be efficiently enhanced. This will in turn bring substantial return to the Company.

With the rapid development of the Company, the area of farmland at Huang Shan Technological Farm in Fuzhou increased from 45 mu to almost 130 mu. The capability in research and development will enhance the expansion of the production bases in the future. The farm will act as a centre to support the Group. The Huang Shan Technological Farm, after expansion, will be equipped with state-of-art technology in the PRC, research and development centre for nursery and processing operation. In respect of the vegetable and fruits in PRC market that have the characteristic of popular, special and excellent, research and development will be conducted on selection, optimization and new processing technology. The farm will also establish first class quality inspection laboratory for organic green agricultural products, and will be responsible for the inspection of organic green fruits and vegetables produced, in order to ascertain the quality of products in meeting the international standard.

Hence, following the expansion of Huang Shan Technological Farm, new technologies and new products will be continuously developed and applied. With China's accession into the World Trade Organization, the Group will rely on its own strong research and development capabilities to increase its market share in the domestic and international markets.

After China's accession into the World Trade Organisation, cost advantages in China's vegetable and fruit agricultural industry are even more outstanding. The Group's management is aiming at a unique and key target: to accelerate the development of international trade market within 3 to 5 years. This will maximize profit through direct exports to end consumers without being traded through middlemen. At the same time, the Group is also equipped to increase export capabilities by developing the food processing business. This extends the corporate operation chain and copes with the development of direct export sales of the international arena. The Group is now negotiating with some international agriculture companies for preparation of major international co-operation.

The "Chaoda Model" has achieved a high degree of recognition among the government and farmers. The Agricultural Department, the Local Government and farmers have visited the Group to gain a better understanding of the model. Currently, the majority of China's farmlands is allocated to individual farmers. Consolidation of farmland and institutionalized farming will become the main development trend. With the importance of ecological farming under the environmental protection concerns, organic green agricultural business operation like "Chaoda Model" has been recognized as the future direction for China's modern agricultural industry. The management believes that they must continue to work hard, exploring new horizons for product species, technology and markets, to maintain the Group as a flagship in China's agricultural industry.

The Group has put strong emphasis in the establishment of direct sales network in the PRC, such as actively participating in the government project for the "introduction of agricultural products in supermarkets". Outlets will be set up for the sales of agricultural products. The Group will also strengthen its cooperation with eminent retail chains in the PRC for direct sales of the Group's agricultural products.

The Group intends to expand its range of products through expansion in sales network and results in research and development. On the basis of existing fruits and vegetables currently available, it will develop the cultivation of edible mushroom and organic livestock breeding, so as to develop new profit centre for the Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

By way of a top-up placing of existing shares and subscription for new shares in the Company in November 2001, Kailey placed 320,000,000 existing shares in the Company at a placing price of HK$2.30 per share with independent investors. Kailey at the same time subscribed for the same number of new shares at a subscription price of HK$2.30 per share. The net proceeds from the subscription amounted to RMB755,341,000 (equivalent to HK$711,645,000), which will be applied for the development of the projects as mentioned in the "Use of Listing and Placement Proceeds" below. As at 31st December, 2001, the Group had cash and bank balances amounting to RMB1,145,695,000 without any bank loans, or pledge of assets.

In January 2002, the Group entered into an agreement (the "Loan Agreement") relating to loan facility of up to US$50,000,000 (the "Loan") with, inter alios, a syndicate of banks. 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, 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 5.9, reflecting the presence of sufficient financial resources.

The Group's sales are mainly transacted in Renminbi and its books are also recorded in Renminbi. As the Company raised net proceeds equivalent to RMB755,341,000 (equivalent to HK$711,645,000) upon its top-up placement during the period under review, the Group still has large sums 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 has been carried out.

As at 31st December, 2001, the Group had outstanding capital commitments amounting to RMB1,132,458,000 (contracted but not provided for amounting to RMB373,244,000, authorized but not contracted for amounting to RMB759,214,000), in respect of the purchase of fixed assets and research and development expenditure. As at 31st December, 2001, the Group did not have any material contingent liabilities.

USE OF LISTING AND PLACEMENT PROCEEDS

For the six months ended 31st December, 2001, the Group had applied part of the listing and placement proceeds respectively as follows:

I. Application of funds from listing in December 2000:

   a. Approximately RMB66,874,000 (equivalent to HK$63,053,000) for the establishment of new production bases;

   b. Approximately RMB93,919,000 (equivalent to HK$88,553,000) for the establishment of basic facilities for new production bases, such as greenhouse facilities, irrigation systems and the setting up of food processing factories;

   c. Approximately RMB4,000,000 (equivalent to HK$3,771,000) for the funding of marketing and promotional activities in connection with the China domestic and export sales; and

   d. Approximately RMB1,296,000 (equivalent to HK$1,222,000) for the funding of the expansion of the Boer goats breeding business;

II. Application of funds from top-up placement in November, 2001:

   a. Approximately RMB7,350,000 (equivalent to HK$6,930,000) for the investment in Newasia Global Limited;

   b. Approximately RMB60,578,000 (equivalent to HK$57,117,000) for the construction of irrigation systems and infrastructure facilities in Nanjing and Beijing production bases;

   c. Approximately RMB7,000,000 (equivalent to HK$6,600,000) for the setting up of retail green stand to sell organic green vegetables and fruits in Shanghai to expand sales network.

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 and the Company's announcement issued on 7th November, 2001 relating to the placing of existing shares and subscription for new shares.

STAFF AND REMUNERATION POLICIES

As at 31st December, 2001, the Group employed 6,037 staff members, of which 5,140 worked on farmland. Employees salaries are therefore determined at a competitive level, while employees with outstanding performance will be awarded 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 had been granted for the six months ended 31st December, 2001.

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 that every major decision making will be accountable to the shareholders and will be in the interest of all shareholders.

DIRECTORS' INTEREST IN SECURITIES

As at 31st December, 2001, according to the register kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the interests of the Company's directors, chief executives and their associates in shares of the Company or any associated corporations (as defined in the SDI Ordinance) were as follows:

The Company

	Number of Shares				
Name	**Personal interest**	**Family interest**	**Corporate interest**	**Other interest**	**Total interest**
Kwok Ho	—	—	966,000,000	—	966,000,000 *(note 1)*
Ip Chi Ming	—	—	132,000,000	—	132,000,000 *(note 2)*

Kailey Investment Ltd.

	Number of Shares				
Name	**Personal interest**	**Family interest**	**Corporate interest**	**Other interest**	**Total interest**
Kwok Ho	900	—	—	—	900
Chiu Na Lai	100	—	—	—	100

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, none of the directors, chief executives or their 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, 2001, so far as are known to the directors of the Company, the following persons (other than the directors or chief executives of the Company whose interests are disclosed above) were 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. *(Note)*	966,000,000	50.31%

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.

INTERIM DIVIDEND

The Board of Directors does not recommend a payment of an interim dividend for the period.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of listed securities of the Company by the Company or any of its subsidiaries during the six months ended 31st December, 2001.

DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

As at 21st March, 2002, 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 alios, 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-excutive 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 unaudited interim financial statements. The Groups' independent auditors, PricewaterhouseCoopers and Charles Chan, Ip & Fung CPA Ltd., have carried out a review of the unaudited interim financial statements 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, 2001, 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, 21st March, 2002