

HIGHLIGHTS

- Turnover increased by 325% to approximately RMB285 million
- Profit for the period increased by 767% to approximately RMB186 million
- Low seasonality brought to a lesser output in the first-half year, contributing to approximately 45% of the full year operating profit according to the past record.
- Gross profit margin being 75.5%

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, 2000 of the Company and its subsidiaries (collectively the “Group”). The consolidated profit and loss account, cash flow statement and statement of recognised gains and losses for the six months ended 31st December, 2000 and the consolidated balance sheet of the Group as at 31st December 2000 (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, 2000
	<i>Notes</i>	<i>RMB'000</i>
Turnover		
Sales of crops		275,671
Sales of livestock		6,718
Sales of ancillary food products		2,177
		<hr/> 284,566
Cost of sales		(69,588)
		<hr/> 214,978
Gross profit		214,978
Other revenues		2,579
Selling and distribution expenses		(20,902)
General and administrative expenses		(8,853)
Net other operating expenses		(60)
		<hr/> 187,742
Operating profit	5	187,742
Finance costs		(313)
		<hr/> 187,429
Profit before taxation		187,429
Taxation	6	(1,652)
		<hr/> 185,777
Profit for the period		<hr/> <hr/> 185,777
Earnings per share	7	<hr/> <hr/> RMB15 cents

UNAUDITED CONSOLIDATED BALANCE SHEET

		As at 31st December, 2000	As at 30th June, 2000
	Notes	RMB'000	RMB'000
Fixed assets		55,224	6,169
Construction in progress		62,028	—
Deferred development costs		38,300	22,200
Long-term prepaid rental		108,624	42,094
Other long-term receivables and deposits		2,150	22,150
Current assets			
Inventories, at cost		20,243	4,901
Accounts receivable	8	17,951	3,468
Other receivables, deposits and prepayments		57,181	23,377
Loan to a third party		—	30,000
Bank balances and cash	9	611,602	12,700
		706,977	74,446
Current liabilities			
Amounts due to related companies	10	3,081	13,245
Other payables and accrued charges		25,089	11,933
Current portion of long-term payable		—	1,800
Dividend payable	11	—	20,000
Short term bank loans - secured	9	30,000	—
Taxation		38,642	32,019
		96,812	78,997
Net current assets/ (liabilities)		610,165	(4,551)
		876,491	88,062
Financed by:			
Share capital	12	169,824	411
Reserves	13	706,667	77,615
Shareholders' funds		876,491	78,026
Non-current liabilities			
Long-term advances from shareholders		—	10,036
		876,491	88,062

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	31st December,	
	2000	
	<i>Notes</i>	<i>RMB'000</i>
Net cash inflow from operating activities		161,340
Net cash inflow from returns on investments and servicing of finance		2,441
Net cash outflow from investing activities		
Net cash inflow from acquisition of subsidiaries	14	1,136
Net cash outflow from other investing activities		(175,703)
		(174,567)
Net cash inflow/(outflow) from financing activities		
Proceeds from issue of shares	12(f)	645,331
Issuing expenses	12(f)	(63,843)
New bank loans		45,000
Repayment of bank loan		(15,000)
Bank deposits pledged for banking facilities		(53,070)
Cash outflow from other financing activities		(1,800)
		556,618
Increase in cash and cash equivalents		545,832
Cash and cash equivalents at 1st July, 2000		12,700
Cash and cash equivalents at 31st December, 2000		558,532
Analysis of the balances of cash and cash equivalents		
Cash and bank balances		611,602
Less: bank deposits pledged for banking facilities		(53,070)
Cash and cash equivalents at 31st December, 2000		558,532

UNAUDITED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

		Six months ended 31st December, 2000
	<i>Notes</i>	<i>RMB'000</i>
Net gains/(losses) not recognised in the profit and loss account		—
Profit for the period		185,777
Total recognised gains		185,777
Capital reserve arising from acquisition of subsidiaries	13	15,044
Contributed surplus arising from the Reconstruction	13	16,567
		<u>217,388</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS**1. Background of the Company**

The Company was established in the Cayman Islands on 24th August, 2000. On 15th December, 2000, the Company was listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") by the issue of 400,000,000 ordinary shares at an offer price of HK\$1.52 per share.

2. Basis of preparation

The interim 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 Listing Rules.

Pursuant to a group reconstruction (the "Reconstruction", details of which has been set out in the Company's prospectus dated 5th December, 2000) in preparation for the listing of the Company's shares on the Hong Kong Stock Exchange, the Company acquired 100% of the share capital of Timor Enterprise Limited, the Group's former holding company, through shares swap and became the ultimate holding company of the Group on 1st December, 2000. Merger accounting is adopted in the preparation of the Group's interim financial statements pursuant to SSAP No. 27, "Accounting for Group Reconstructions", under which the financial statements of the Company and the consolidated financial statements of Timor Enterprise Limited are combined as if the Reconstruction had been carried out from 26th November, 1999, the date of incorporation of Timor Enterprise Limited.

In respect of the unaudited consolidated balance sheet of the Group, the comparative figures as at 30th June, 2000 are the consolidated balance sheet of Timor Enterprise Limited since the Company had not been incorporated at that date. The consolidated balance sheet of Timor Enterprise Limited as at 30th June, 2000 is prepared based on the acquisition accounting, which includes the balance sheets of Timor Enterprise Limited and the subsidiaries already acquired as at 30th June, 2000.

In respect of the unaudited consolidated profit and loss account of the Group for the six months ended 31st December, 2000, no comparative figures for the corresponding period from 1st July, 1999 to 31st December, 1999 are presented since Timor Enterprise Limited had been dormant from its date of incorporation to 31st December, 1999 and did not acquire all the other subsidiaries until the year 2000.

3. Principal Accounting Policies

The principal accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the accountants' report as set out in the Company's prospectus dated 5th December, 2000.

4. 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 are summarised below:

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

The Group's operations are primarily in the People's Republic of China ("PRC") and the Group's direct export sales and gross profit attributable to other geographical areas are both less than 5% of the Group's consolidated total, consequently, no geographical analysis of turnover is presented.

5. Operating profit

Operating profit is stated after charging the following:

	Six months ended 31st December, 2000
	<i>RMB'000</i>
Depreciation of owned fixed assets	1,242
Operating lease expenses	
— land and buildings	7,067
— motor vehicles	242
Staff costs	24,847
Amortisation of deferred development costs	300
Amortisation of long-term prepaid rental	1,721

6. Taxation

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

	<i>Notes</i>	Six months ended 31st December, 2000
		<i>RMB'000</i>
PRC income tax	(i)	1,652
Hong Kong profits tax	(ii)	—

- (i) PRC income tax represents tax charges on the assessable profits of the PRC subsidiaries of the Group.
- (ii) No provision for Hong Kong profits tax has been made for the period as there are no estimated assessable profits for the subsidiary operated in Hong Kong during the period.

7. Earnings per share

The calculation of the earnings per share is based on the profit for the period of RMB185,777,000 and the weighted average number of 1,236,956,522 shares in issue during the period.

8. Accounts receivable

The Group granted a credit term of 30 days to the majority of its customers and all the Group's accounts receivable as at 31st December, 2000 are within such credit terms.

9. Bank balances and cash

Included in the bank balances and cash is a bank deposit of HK\$50,000,000 (equivalent to RMB53,070,000) which has been pledged as security for the Group's short term banking facilities amounting to RMB50,000,000 of which RMB30,000,000 was utilized as at 31st December, 2000.

10. Amounts due to related companies

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

11. Proposed dividends

The Board of Directors does not recommend a payment of dividends for the six months ended 31st December, 2000.

12. Share capital

	Notes	Authorised Ordinary shares of HK\$0.1 each		
		No. of shares	HK\$'000	RMB'000
As at 1st July, 2000		—	—	—
Upon incorporation of the Company	(a)	3,500,000	350	371
Increase of authorised share capital	(b)	4,996,500,000	499,650	527,144
As at 31st December, 2000		<u>5,000,000,000</u>	<u>500,000</u>	<u>527,515</u>

	Notes	Issued and fully paid Ordinary shares of HK\$0.1 each		
		No. of shares	HK\$'000	RMB'000
As at 1st July, 2000		—	—	—
Issue upon incorporation of the Company	(c)	2	—	—
Acquisition of subsidiaries	(d)	998	—	—
Allotment to then existing shareholders	(e)	1,199,999,000	120,000	127,368
Issue of shares upon listing	(f)	400,000,000	40,000	42,456
As at 31st December, 2000		<u>1,600,000,000</u>	<u>160,000</u>	<u>169,824</u>

- (a) The Company was incorporated on 24th August, 2000 with an authorised share capital of HK\$350,000 divided into 3,500,000 of HK\$0.10 each.
- (b) On 23rd November, 2000, the authorised share capital of the Company was increased from HK\$350,000 to HK\$500,000,000 by the creation of an additional 4,996,500,000 new shares.
- (c) Upon its incorporation, the Company allotted and issued 2 shares at par which were credited as fully paid.
- (d) Pursuant to the Reconstruction, the Company issued 998 shares to acquire 100% shareholdings of Timor Enterprise Limited, the Group's former holding company from its then existing shareholders.
- (e) Pursuant to the Company's written resolution on 29th November, 2000, conditional on the share premium account of the Company being credited as a result of the new issue of shares as set out in note (f) below, a total of HK\$119,999,900 of such amount arising from the public issuing was directed to be capitalised as share capital of the Company and 1,199,999,000 new shares were allotted to the then existing shareholders of the Company.

- (f) The Company issued 400,000,000 ordinary shares of HK\$0.10 each at a subscription price of HK\$1.52 per share upon the listing of the Company's shares on the Hong Kong Stock Exchange. The Group raised approximately HK\$547 million net of related expenses (equivalent to RMB581.5 million) by way of this placing and public offering.
- (g) The share capital in the consolidated balance sheet as at 30th June, 2000 represents the share capital of Timor Enterprise Limited, the former holding company of the Group.

13. Reserves

	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, 2000	—	63,283	—	566	13,766	77,615
Acquisition of subsidiaries	—	15,044	—	—	—	15,044
Contributed surplus arising from the 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 period	—	—	—	—	185,777	185,777
Transfer	—	—	501	250	(751)	—
	<u>411,664</u>	<u>94,894</u>	<u>501</u>	<u>816</u>	<u>198,792</u>	<u>706,667</u>
As at 31st December, 2000	411,664	94,894	501	816	198,792	706,667

14. Purchase of subsidiaries

RMB'000

Net assets acquired	
Fixed assets	366
Deferred development costs	3,100
Long-term prepaid rental	9,789
Inventories	2,663
Accounts receivable and other receivables	15,454
Bank balances and cash	1,242
Accounts payable and other payables	(12,493)
Taxation	(4,971)
	<u>15,150</u>
Capital reserve arising from acquisition	(15,044)
	<u>106</u>
Satisfied by:	
Cash	<u>106</u>

15. **Commitment**(a) *Capital commitments*

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

	As at 31st December, 2000	As at 30th June, 2000
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for		
— Research and development expenditures	18,200	12,000
— Purchase of fixed assets	376,609	191,450
	<hr/>	<hr/>
Total	394,809	203,450
	<hr/> <hr/>	<hr/> <hr/>

(b) *Operating lease commitments*

At the end of the period, the Group had the following operating lease commitments to make payment in the next twelve months which expire as follows:—

	Within one year	In the second to fifth year inclusive	After the fifth year	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31st December, 2000				
Land and buildings	966	1,603	21,210	23,779
Others	56	388	—	444
	<hr/>	<hr/>	<hr/>	<hr/>
	1,022	1,991	21,210	24,223
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As at 30th June, 2000				
Land and buildings	382	381	424	1,187
Others	—	376	4,466	4,842
	<hr/>	<hr/>	<hr/>	<hr/>
	382	757	4,890	6,029
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

16. **Related party transactions**

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

	Six months ended 31st December, 2000 RMB'000
Fujian Chaoda Agricultural Produce Trading Company Limited	
— Purchase of fertilisers	21,364
— Purchase of plant growth regulators	749
Beijing Chaoda Yingjun Bio-tech Company Limited	
— Purchase of seeds	270
(i) The above related parties are companies majority owned by Mr. Kwok Ho, a director and Controlling Shareholder of the Company.	
(ii) The directors are of the opinion that these transactions were conducted on normal commercial terms in the normal course of business.	

SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION

As set out in note 2 to the interim financial statements, the Group's financial statements are prepared in accordance with Hong Kong Statements of Standard Accounting Practice and include the financial statements of the Company and the consolidated financial statements of Timor Enterprise Limited. In accordance with Hong Kong Statements of Standard Accounting Practice, the consolidated financial statements of Timor Enterprise Limited are prepared on an acquisition basis which requires the Timor Enterprise Limited to consolidate the accounts of subsidiaries from the date that the subsidiaries are acquired. Accordingly, the consolidated balance sheet of Timor Enterprise Limited as at 30th June, 2000 did not include assets and liabilities of those subsidiaries which acquired after 30th June, 2000.

For comparison purpose, the directors consider that it is appropriate to provide additional financial information to shareholders by presenting the pro forma combined profit and loss account and pro forma combined balance sheet of the Group for the interim period, which are prepared as if the subsidiaries acquired during the months from January to July 2000 had been subsidiaries of the Group since 1st July, 1999.

These pro forma financial statements do not form part of the interim financial statements of the Group and have not been subject to any independent audit or review by the Company's independent auditors.

Pro forma combined profit and loss account

	For the six months ended 31st December, 2000 RMB'000	For the six months ended 31st December, 1999 RMB'000
Turnover		
Sales of crops	275,671	59,472
Sales of livestock	6,718	6,537
Sales of ancillary food products	2,177	946
	<u>284,566</u>	<u>66,955</u>
Cost of sales	<u>(69,588)</u>	<u>(17,986)</u>
Gross profit	214,978	48,969
Other revenues	2,579	71
Selling and distribution expenses	(20,902)	(4,461)
General and administrative expenses	(8,853)	(3,130)
Net other operating expenses	<u>(60)</u>	<u>(22)</u>
Operating profits	187,742	41,427
Finance costs	<u>(313)</u>	<u>—</u>
Profit before taxation	187,429	41,427
Taxation	<u>(1,652)</u>	<u>(13,658)</u>
Profit after taxation	185,777	27,769
Minority interests	<u>—</u>	<u>(6,346)</u>
Profit for the period	<u><u>185,777</u></u>	<u><u>21,423</u></u>
Earnings per share	<u><u>RMB15.0 cents</u></u>	<u><u>*RMB1.8 cents</u></u>

*—The computation of the pro forma earnings per share for the six months ended 31st December, 1999 is based on the Group's pro forma combined profit after taxation and minority interests attributable to shareholders for the same period of RMB21,423,000 and 1,200,000,000 ordinary shares (the number of shares of the Company right before the placing and public offer) deemed to be in issue throughout the period.

Pro forma combined balance sheet

	As at 31st December 2000 RMB'000	As at 30th June 2000 RMB'000
Fixed assets	55,224	6,536
Construction in progress	62,028	—
Deferred development costs	38,300	25,300
Long-term prepaid rental	108,624	51,883
Other long-term receivables and deposits	2,150	22,150
Current assets		
Inventories, at cost	20,243	7,565
Accounts receivable	17,951	4,459
Amounts due from related companies	—	200
Other receivables, deposits and prepayments	57,181	24,512
Loan to a third party	—	30,000
Bank balances and cash	611,602	13,940
	706,977	80,676
Current liabilities		
Amounts due to related companies	3,081	535
Other payables and accrued charges	25,089	18,374
Current portion of long-term payable	—	1,800
Dividend payable	—	20,000
Short term bank loans - secured	30,000	—
Taxation	38,642	36,990
	96,812	77,699
Net current assets	610,165	2,977
	876,491	108,846
Financed by:		
Share capital	169,824	516
Reserves	706,667	92,700
Shareholders' funds	876,491	93,216
Non-current liabilities		
Long-term advances from shareholders	—	15,630
	876,491	108,846

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company was the first organic agricultural business successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 15th December, 2000. The Group is an integrated and modernised agricultural enterprise practising in China, applying advanced agricultural technologies and modern organic farming techniques, over 100 species of organic vegetables and fruits are produced in carefully chosen, non-polluted production bases in China. Distribution is carried out through the Group's complete sales network, supported by a comprehensive logistics management system, to both the local and overseas markets. The Group is also engaged in the rice planting and livestock business.

The Directors are pleased to announce the Group's first interim results since its listing on the Main Board. For the six months ended 31st December, 2000, the Group recorded a turnover of RMB284,566,000 representing an increase of 325% as compared to the same period in 1999; profit before taxation was RMB187,429,000 representing an increase of 352% as compared to the same period in 1999; net profit attributable to shareholders was RMB185,777,000 representing an increase of 767% as compared to the same period in 1999; the gross profit margin increased to 75.5% representing an increase of 2.4% point as compared to the same period in 1999; the pre-tax profit margin increased to 65.9% representing an increase of 4.0% point as compared to the same period in 1999; and the net profit margin increased to 65.3% representing an increase of 33.3% point as compared to the same period in 1999.

During the period under review, the Group has been active in establishing production bases in China. Starting from its original production bases in Fujian province, the bases have been extended to Hainan Province, Guangdong Province, Jiangsu Province, Shandong Province, Liaoning Province and Shaanxi Province. The Group increased number of its production bases from 5 as at 30th June, 2000 to 22 as at 31st December, 2000, and its aggregate farmland area of 15,893 Mu (1,060 hectares) as at 30th June, 2000 was increased significantly to 47,830 Mu (3,189 hectares) as at 31st December, 2000. The enlarged production scale had brought to the increase in production volumes and species. With the extension of the sales network to all production bases and nearby cities with high consumer spending, the Group was capable to reach a substantial turnover for the period. The period under review experienced the seasonal cold climate in China, especially in the northern areas, leading to a lower production volume for agricultural produce as compared to the warm seasons in general. As an illustration, the first half-year ended 31st December, 1999 recorded a pro forma combined profit before taxation of RMB41,427,000 (Please refer to the above section "Supplementary Unaudited Financial Information"), contributing to about 45% of the pro forma combined profit before taxation for the previous financial year ended 30th June, 2000.

The Group conducted its export sales by means of direct sales to overseas customers and sales locally to the PRC trading companies. The overseas markets are primarily Japan and Hong Kong. During the review period, the Group recorded sales to the overseas markets (the aggregate of direct sales and sales to trading companies) at approximately RMB101,170,000. Although there was significant growth in sales to the overseas markets at about 3 times as compared to the same period last year, the initial development of the six additional provinces other than the Fujian Province are still mainly serving the domestic markets. Therefore percentage of such sales to the overseas markets to the total sales was about 35 %, as compared to 42% for the same period last year.

The performance of livestock business is also encouraging. The Directors are well aware of the effect of the devastating windstorm in Northern China on the reduction of the supply of the domestic livestock, as well as the recent spread of the “foot and mouth disease” and “mad cow disease” in England and on the European continent. It is emphasised that our imported Boer goats from South Africa have fulfilled all necessary quarantine requirements. After the period end, the Group had established a new pastureland with area of 483 Mu (32 hectares) in Shangdong Province and imported further flock of Boer goats. Together with our experienced breeding techniques, the Board of Directors believe our expansion of the livestock is able to capture the prevailing shortage in market supply.

The Group holds total cash in hand of RMB611,602,000 (of which the balance denominated in Hong Kong dollars amounts to HK\$543,272,000, equivalent to RMB576,629,000) as at 30 June, 2000. During the period under review, the Group utilised partial amounts from the funds raised and internal financial resources to invest in and improve production facilities at the production bases. This included the construction of protection shelters and improving drainage. As a result, for the period ended 31 December 2000, fixed assets and construction expenses increased substantially to RMB55,224,000 and RMB62,028,000, respectively.

The accreditation of vegetable and fruits species from the Group’s current largest production base - Sian You in the Fujian Province, by the Organic Food Development Center of China, further enhances the marketing ability of the produce.

The Group’s research institute continues to recruit high quality academicians and doctorate degree holders to strengthen the research and development team. The Group also cooperates with major research and development entities in China, to accelerate its research efforts.

PROSPECTS

The Board of Directors believes that the Group should carry out improvements at agricultural facilities in production bases while also selecting suitable production bases to enhance production coverage, minimizing the adverse effects from seasonal and regional climatic variations. The Board of Directors also believe that expertise in organic farming is important for the Group’s future development. The Group will continue its commitment to foster and solicit suitable specialist skills to enhance the competitive edge in both domestic and overseas organic agricultural markets.

To complement the two macro-conditions stated above, the Group will speed up its application for the comprehensive international organic food certification for its agricultural produce. It will also publicize the results of its various research and development projects and explore new research and development projects to advance organic farming techniques and development new species.

The Group will also continue its efforts to extend the sales network. In China, the Group will increase its establishment of dedicated retail sales outlets to enhance direct sales to customers, and strengthen the sales channels to complement the primary focus on wholesale markets and institutional customers in the past. In the export market, the Group will actively promote its organic vegetables and fruits to the large department stores, hotels and governmental wholesale markets in Hong Kong, aiming to enhance the recognition of the “Chaoda” brandname by the general public. In Japan, the Group plans to set up its own representative office there to manage the supply of China grown agricultural produce directly to the Japanese customers.

The Board of Directors believes that China’s imminent entry into WTO will bring in positive business opportunities for the Group. Being a domestic organic agricultural producer, the Group can offer a more competitive price than imported produce from overseas. For the export market, the international accreditation of the organic standard of the Group’s produce will accelerate the Group’s entry to the world organic food market. The Group is paving the way in every aspect to capture these business opportunities.

The Group has confidence in its future prospects. It aims to be one of the leading Chinese high-tech organic green agricultural enterprises in the worldwide organic food market and have “Chaoda” branded organic produce to be widely accepted by the general public.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation by internally generated cashflow. The net proceeds of RMB581,488,000 (equivalent to HK\$547,850,000) raised upon the flotation in December 2000 are to fund mainly the capital expenditure in respect of the expansion of the production bases in the mainland China and upgrading the production facilities. As at 31st December, 2000, just a very short period of time after receiving the flotation monies, the Group still kept majority of fund raised, as such the Group’s bank and cash balances amounted to RMB611,602,000.

As at 31st December, 2000, the Group had a short term bank loan of RMB30,000,000 borrowed from a PRC bank in Fuzhou. This bank facility amounting to RMB50,000,000 is secured by a deposit of HK\$50,000,000 (equivalent to RMB53,070,000). This bank loan was borrowed to expedite the expansion of the Group to meet the immediate RMB expenditure.

As at 31 December 2000, the Group had outstanding contracted capital commitments amounting to approximately RMB394,809,000 in respect of research and development expenditure and purchase of fixed assets. Net current assets as at 31 December 2000 were approximately RMB610,165,000 while current ratio being healthy at 7.3.

With the above financial resources, the directors are confident that the Group has adequate capital resources to finance its business expansion.

EMPLOYMENT AND REMUNERATION POLICY

As at 31st December, 2000, the Group had approximately 4,300 employees, majority of them are farm employees working in the PRC.

The Group normally pays a basic salary and a performance bonus to each of its farm employees. The Group has not experienced any significant difficulty in recruiting farm employees or any significant turnover in the number of its farm employees or any labour dispute with its farm employees.

The share option scheme of the Company adopted on 23rd November, 2000 provides that the Directors of the Company may offer to any full-time employee (including executive director) of the Company and any of its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the share option scheme. However, no options were granted, exercised or outstanding during the six months ended 31st December, 2000.

DIRECTORS' INTEREST IN SECURITIES

As at 31st December, 2000, the interests of the Directors of the Company in the securities of the Company or any of its associated corporations (within the meaning of Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, were as follows:

Name of Company	Name of Director	Number of Shares			Total
		Personal interests	Family interests	Corporate interests	
The Company	Kwok Ho	—	—	894,000,000 <i>(note 1)</i>	894,000,000
The Company Kailey Investment	Ip Chi Ming	—	—	204,000,000 <i>(note 2)</i>	204,000,000
Kailey Investment Limited <i>(Note 3)</i>	Kwok Ho	900	—	—	900
Kailey Investment Limited <i>(Note 3)</i>	Chiu Na Lai	100	—	—	100

Notes:

1. Held through Kailey Investment Limited in which Mr. Kwok Ho has a 90% shareholding interest.
2. Held through Young West Investments Ltd. which is wholly-owned by Mr. Ip Chi Ming.
3. The ultimate holding company of the Company, in which Mr. Kwok Ho has a 90% shareholding interest and Madam Chiu Na Lai has a 10% shareholding interest.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, so far as are known to the Directors of the Company, the following persons (other than the Directors 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 Limited (<i>Note 1</i>)	894,000,000	55.875%
Young West Investments Ltd. (<i>Note 2</i>)	204,000,000	12.750%

Notes:

1. Kailey Investment Limited 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 Limited.
2. Young West Investments Ltd. is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 100% by Mr. Ip Chi Ming.

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, 2000.

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 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. At the request of the Audit Committee, the Group's 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 the 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, 2000, 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, 20th March, 2001

