



CHAODA MODERN AGRICULTURE (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)



Interim Report 2003 / 2004



HIGHLIGHTS

Turnover increased by 31.8% to RMB858 million.

EBITDA increased by 29.1% to RMB454 million.

Net Profit increased by 47.5% to RMB403 million.

The Board of Directors (the "Board") of Chaoda Modern Agriculture (Holdings) Limited (the "Company" or "Chaoda") is pleased to present the Interim Report for the six months ended 31 December 2003 of the Company and its subsidiaries (collectively the "Group"). The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 31 December 2003 and the consolidated balance sheet of the Group as at 31 December 2003 (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 auditors, Charles Chan, Ip & Fung CPA Ltd.



UNAUDITED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2003

	<u>Notes</u>	Six months ended 31 December	
		<u>2003</u>	<u>2002</u>
		RMB'000	RMB'000
Turnover			
Sales of crops		774,495	627,327
Sales of livestock		19,557	13,286
Supermarkets chain operation		64,346	10,502
		858,398	651,115
Cost of sales		(298,246)	(199,384)
Gross profit		560,152	451,731
Other revenues		8,002	6,437
Selling and distribution expenses		(83,542)	(61,464)
General and administrative expenses		(50,291)	(45,748)
Research expenses		(14,650)	(15,770)
Net other operating expenses		(18,294)	(13,524)
Operating profit	4	401,377	321,662
Finance costs		(8,595)	(5,053)
Share of results of associates		10,130	3,672
Profit before taxation		402,912	320,281
Taxation	6	(760)	(48,095)
Profit after taxation		402,152	272,186
Minority interests		400	718
Profit for the period		402,552	272,904
Earnings per share			
Basic	7(i)	RMB20.9 cents	RMB14.2 cents
Diluted	7(ii)	RMB20.7 cents	N/A
Dividends	8	—	182,490



UNAUDITED CONSOLIDATED BALANCE SHEET

As at 31 December 2003

		As at 31 December 2003 RMB'000	As at 30 June 2003 RMB'000
	<u>Notes</u>		
Fixed assets		1,313,803	1,012,268
Construction-in-progress		370,822	371,854
Computer software development cost		29,428	39,182
Deferred development cost		69,103	72,762
Long-term prepaid rentals		706,350	597,897
Long-term bank deposits		—	103,233
Deferred expenditure		29,414	29,882
Other long-term deposits		2,150	2,150
Interests in associates	9	201,635	183,267
Current assets			
Inventories, at cost		102,873	80,497
Accounts receivable	10	66,771	69,407
Other receivables, deposits and prepayments		222,787	193,559
Cash and bank balances		417,457	764,053
		809,888	1,107,516
Current liabilities			
Amount due to a related company	11	8,707	6,167
Accounts payable	12	12,253	16,172
Other payables and accrued charges		21,227	41,546
Short-term bank loan — secured	13	57,890	462,932
Taxation		93,096	93,096
		193,173	619,913
Net current assets		616,715	487,603
NET ASSETS		3,339,420	2,900,098
Financed by:			
Share capital	14	206,221	203,266
Reserves	15	3,129,990	2,693,223
Shareholders' funds		3,336,211	2,896,489
Minority interests		3,209	3,609
		3,339,420	2,900,098



UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2003

	Six months ended 31 December	
	<u>2003</u>	<u>2002</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash inflow from operating activities	<u>400,802</u>	<u>386,667</u>
Net cash used in investing activities	<u>(374,596)</u>	<u>(538,080)</u>
Net cash used in financing activities	<u>(351,626)</u>	<u>(183,590)</u>
Decrease in cash and cash equivalents	(325,420)	(335,003)
Cash and cash equivalents at 1 July	<u>742,877</u>	<u>891,043</u>
Cash and cash equivalents at 31 December	<u>417,457</u>	<u>556,040</u>

Cash and cash equivalents as at 31 December 2003 and 2002 are all cash and bank balances.



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2003

	<i>Notes</i>	Six months ended 31 December	
		<u>2003</u>	<u>2002</u>
		<i>RMB'000</i>	<i>RMB'000</i>
Total equity as at 1 July		2,896,489	2,360,146
Issue of new shares under share option scheme	14	2,955	—
Premium on issue of shares under share option scheme	15	34,215	—
Repurchase of shares		—	(6,301)
Profit for the period		402,552	272,904
Dividends	8	—	(182,490)
Total equity as at 31 December		<u>3,336,211</u>	<u>2,444,259</u>



NOTES TO THE CONDENSED ACCOUNTS

31 December 2003

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 30 June 2003.

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 30 June 2003 except that the adoption of the SSAP 12 (Revised) income taxes issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2003.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In the previous period, partial provision was made for deferred tax using the income statement liability method, whereby a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.



3. Segment information

The Group is principally engaged in the growing and sales of crops, breeding and sales of livestock, and supermarkets chain operation. The results of the major business activities for the six months ended 31 December 2003 and 2002 are summarised below:

For the six months ended 31 December 2003

	Growing and sales of crops	Breeding and sales of livestock	Supermarkets chain operation	Inter- segment elimination	Total
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Turnover	776,279	19,557	64,346	(1,784)	858,398
Cost of sales	<u>(238,179)</u>	<u>(4,207)</u>	<u>(57,644)</u>	<u>1,784</u>	<u>(298,246)</u>
Gross profit	538,100	15,350	6,702	—	560,152
Unallocated items :					
Other revenues					8,002
Selling and distribution expenses					(83,542)
General and administrative expenses					(50,291)
Research expenses					(14,650)
Net other operating expenses					<u>(18,294)</u>
Operating profit					401,377
Finance costs					(8,595)
Share of results of associates					<u>10,130</u>
Profit before taxation					402,912
Taxation					(760)
Minority interests					<u>400</u>
Profit for the period					<u><u>402,552</u></u>



Inter-segment revenue represents the sales of fruits and vegetables from the crops segment to the supermarket segment. Sales between business segments are accounted for at competitive market prices charged to unaffiliated customers for similar goods.

For the six months ended 31 December 2002

	Growing and sales of crops <i>RMB'000</i>	Breeding and sales of livestock <i>RMB'000</i>	Supermarkets chain operation <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover	627,327	13,286	10,502	651,115
Cost of sales	(184,839)	(5,330)	(9,215)	(199,384)
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				(13,524)
Operating profit				321,662
Finance costs				(5,053)
Share of results of associates				3,672
Profit before taxation				320,281
Taxation				(48,095)
Minority interests				718
Profit for the period				<u>272,904</u>

There are no sales transactions between the business segments.



Growing and sales of crops is the Group's primary business segment. The Group's turnover, operating profits and total assets attributable to this business segment accounted for over 90% of the Group's corresponding consolidated totals for the periods ended 31 December 2003 and 2002. Consequently, no further segment information by business activity is presented.

The Group's operations are primarily in the People's Republic of China (the "PRC") and the Group's turnover, gross profits and total assets attributable to other geographical areas are less than 10% of the Group's corresponding consolidated totals for the periods ended 31 December 2003 and 2002. Consequently, no segment information by geographical area is presented.

4. Operating profit

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

	Six months ended 31 December	
	2003	2002
	RMB'000	RMB'000
Crediting		
Amortisation of negative goodwill	(4,068)	(4,068)
Interest income	(3,250)	(5,271)
Charging		
Depreciation of owned fixed assets (net of amount capitalised in inventories)	36,287	22,563
Operating lease expenses		
— land and buildings	21,982	20,242
— motor vehicles	193	296
Staff costs	66,995	59,911
Amortisation of deferred development cost	1,309	1,575
Amortisation of long-term prepaid rentals	8,688	5,263
Amortisation of computer software development cost	9,804	9,667
Amortisation of deferred expenditure	3,361	—
Research expenses	14,650	15,770
Loss on disposal of fixed assets	2,317	4,034
Bad debts written off	342	—



5. Staff costs

	Six months ended 31 December	
	<u>2003</u>	<u>2002</u>
	RMB'000	RMB'000
Wages and salaries	66,342	59,114
Pension cost — defined contribution plans	653	797
	66,995	59,911

6. Taxation

The amount of taxation charged to the consolidated income statement represents:

	<u>Notes</u>	Six months ended 31 December	
		<u>2003</u>	<u>2002</u>
		RMB'000	RMB'000
PRC income tax	(i)	—	47,820
Hong Kong profits tax	(ii)	—	—
		—	47,820
Share of taxation attributable to an associated company	(iii)	760	275
		760	48,095



Notes:

- (i) Fuzhou Chaoda Modern Agriculture Development Company Limited, 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 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, Securities Regulatory Commission and Chinese Supply and Marketing Cooperatives, domestic PRC State-Level Agricultural Leading Enterprises are entitled to certain tax benefits including full exemption of income tax. These tax benefits will also be applied to other PRC subsidiaries comprising 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) 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.
- (iv) Deferred taxation

Deferred tax assets are to be recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

The unrecognised deferred tax assets in respect of tax losses amounted to RMB7,434,000 (as at 30 June 2003: RMB7,438,000)

7. Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share is based on the Group's profits for the period of RMB402,552,000 (2002: RMB272,904,000) and the weighted average number of 1,924,494,609 (2002: 1,918,448,413) shares in issue during the period.

**(ii) Diluted earnings per share**

The calculation of diluted earnings per share is based on the Group's profits for the period of RMB402,552,000 (2002: N/A) and the weighted average number of 1,943,860,901 (2002: N/A) shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

(iii) Reconciliations

	Six months ended 31 December	
	<u>2003</u>	<u>2002</u>
Weighted average number of ordinary shares used in calculating basic earnings per share	1,924,494,609	—
Deemed issued of ordinary shares	<u>19,366,292</u>	<u>—</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>1,943,860,901</u>	<u>—</u>

8. Dividends

	Six months ended 31 December	
	<u>2003</u>	<u>2002</u>
	<i>RMB'000</i>	<i>RMB'000</i>
2003: Nil (2002: 2001/2002 final, paid HK\$0.09 per share)	<u>—</u>	<u>182,490</u>

The directors do not recommend the payment of an interim dividend for the six months ended 31 December 2003 (2002: nil).



9. Interests in associates

	<u>As at</u> <u>31 December</u> <u>2003</u> <i>RMB'000</i>	<u>As at</u> <u>30 June</u> <u>2003</u> <i>RMB'000</i>
Share of net assets	331,813	322,442
Negative goodwill on acquisition less accumulated amortisation	(142,377)	(146,445)
	189,436	175,997
Amount due to an associated company	(80)	(80)
Shareholder's loan	12,279	7,350
	<u>201,635</u>	<u>183,267</u>

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 31 December 2003, the analysis by age of the accounts receivable of the Group was as follows:

	<u>As at</u> <u>31 December</u> <u>2003</u> <i>RMB'000</i>	<u>As at</u> <u>30 June</u> <u>2003</u> <i>RMB'000</i>
0 — 1 month	60,938	63,973
1 — 3 months	2,939	4,003
Over 3 months	2,894	1,431
	<u>66,771</u>	<u>69,407</u>

**11. Amount due to a related company**

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

12. Accounts payable

At 31 December 2003, the analysis by age of the accounts payable of the Group was as follows:

	<u>As at</u> <u>31 December</u> <u>2003</u> <i>RMB'000</i>	<u>As at</u> <u>30 June</u> <u>2003</u> <i>RMB'000</i>
0 — 1 month	10,339	8,645
1 — 3 months	893	3,300
Over 3 months	1,021	4,227
	<u>12,253</u>	<u>16,172</u>

13. Short-term bank loan — secured

As at 31 December 2003, the Group had short-term bank loans in the PRC amounted to RMB57,890,000 (as at 30 June 2003: RMB462,932,000). The short-term bank loans were secured by corporate guarantee executed by one of the subsidiaries. (as at 30 June 2003: secured by the Company's interests in certain subsidiaries; shareholders loan of US\$45,000,000 and HK\$250,000,000; fixed deposits of HK\$20,000,000 of one of the subsidiaries and corporate guarantee executed by one of the subsidiaries.)

Subsequent to period end, a short-term bank loan of RMB30,000,000 was expired and fully repaid in January 2004.



14. Share capital

	Authorised Ordinary shares of HK\$0.1 each		
	<i>No. of shares</i>	<i>HK\$'000</i>	<i>RMB'000</i>
As at 30 June 2003 and 31 December 2003	<u>5,000,000,000</u>	<u>500,000</u>	<u>527,515</u>

	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 1 July 2003	1,915,062,000	191,506	203,266
Issue of new shares under share option scheme	<u>27,850,000</u>	<u>2,785</u>	<u>2,955</u>
As at 31 December 2003	<u>1,942,912,000</u>	<u>194,291</u>	<u>206,221</u>

15. Reserves

For the period ended 31 December 2003

	Share Premium	Capital Reserve	Capital Redemption Reserve	Statutory Common Reserve	Statutory Welfare Reserve	Retained Profits	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 July 2003	1,127,262	94,894	523	84,111	731	1,385,702	2,693,223
Premium on issue of shares	<u>34,215</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>34,215</u>
Profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>402,552</u>	<u>402,552</u>
As at 31 December 2003	<u>1,161,477</u>	<u>94,894</u>	<u>523</u>	<u>84,111</u>	<u>731</u>	<u>1,788,254</u>	<u>3,129,990</u>
Company and subsidiaries	1,161,477	94,894	523	84,111	731	1,726,315	3,068,051
Associates	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>61,939</u>	<u>61,939</u>
As at 31 December 2003	<u>1,161,477</u>	<u>94,894</u>	<u>523</u>	<u>84,111</u>	<u>731</u>	<u>1,788,254</u>	<u>3,129,990</u>



For the period ended 31 December 2002

	Share Premium	Capital Reserve	Capital Redemption Reserve	Statutory Common Reserve	Statutory Welfare Reserve	Retained Profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 July 2002	1,133,040	94,894	—	80,624	731	847,068	2,156,357
Premium on shares repurchases	(5,778)	—	—	—	—	—	(5,778)
Transfer to capital redemption reserve	—	—	523	—	—	(523)	—
Profit for the period	—	—	—	—	—	272,904	272,904
2001/02 final dividends paid	—	—	—	—	—	(182,490)	(182,490)
As at 31 December 2002	<u>1,127,262</u>	<u>94,894</u>	<u>523</u>	<u>80,624</u>	<u>731</u>	<u>936,959</u>	<u>2,240,993</u>
Company and subsidiaries	1,127,262	94,894	523	80,624	731	915,958	2,219,992
Associates	—	—	—	—	—	21,001	21,001
As at 31 December 2002	<u>1,127,262</u>	<u>94,894</u>	<u>523</u>	<u>80,624</u>	<u>731</u>	<u>936,959</u>	<u>2,240,993</u>

16. Commitments

(a) Capital commitments

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

	<u>As at</u> <u>31 December</u> <u>2003</u> <u>RMB'000</u>	<u>As at</u> <u>30 June</u> <u>2003</u> <u>RMB'000</u>
Contracted but not provided for		
— Research and development expenditures	21,100	20,700
— Purchase of fixed assets	194,489	76,438
	<u>215,589</u>	<u>97,138</u>
Authorised but not contracted for		
— Purchase of fixed assets	295,924	358,676
Total	<u>511,513</u>	<u>455,814</u>



(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	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 31 December 2003				
Land and buildings	68,738	266,752	1,446,558	1,782,048
Others	482	99	—	581
	<u>69,220</u>	<u>266,851</u>	<u>1,446,558</u>	<u>1,782,629</u>
As at 30 June 2003				
Land and buildings	65,859	228,606	1,113,693	1,408,158
Others	672	155	—	827
	<u>66,531</u>	<u>228,761</u>	<u>1,113,693</u>	<u>1,408,985</u>

17. *Related party transactions*

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

	Six months ended 31 December	
	<u>2003</u>	<u>2002</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Fujian Chaoda Agricultural Produce Trading Company Limited		
— Purchase of fertilizers	84,854	61,714
— Purchase of plant growth regulators	1,776	1,545
福建超大集團有限公司		
— Rental and management fee	242	—
福建超大現代種業有限公司		
— Rental and management fee	<u>57</u>	<u>—</u>



- (i) The above related parties are companies 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.

18. Contingent liabilities

At 31 December 2003, there were contingent liabilities in respect of bills discounted with bank amounting to RMB243,000 (as at 30 June 2003: Nil).

19. Subsequent events

- (i) A placing agreement was entered into on 15 January 2004 pursuant to which the placing agent had agreed to place, on a fully underwritten basis, 280,000,000 existing shares held by Kailey Investment Ltd, the ultimate holding company. The placing was made to independent professional, institutional and other investors at the placing price of HK\$2.50 (equivalent to RMB2.647) per placing share.
- (ii) The bonus issue announced by the Company on 21 October 2003 had been approved at the Annual General Meeting on 19 December 2003 and the 97,145,600 bonus shares issued pursuant to the bonus issue commenced dealing on 16 January 2004.



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Financial Review

For the six months ended 31 December 2003, turnover and profit for the period of the Group amounted to approximately RMB858,398,000 and RMB402,552,000 respectively, representing an increase of 31.8% and 47.5% as compared to the same period last year. Sales of crops has increased in volume from 272,600 tonnes to 319,600 tonnes.

Although some of our production bases suffered from natural disasters, for instance, high temperature, drought and flood, the Group has an efficient production management and effective counter-seasonal production that we achieved fruitful results in our business. Increase in turnover and profit for the period was a proof of the Group's achievement of short-term objectives as stated in the latest published Annual Report. We focused very much on the effectiveness of the matching process of the production plan with the sales demand. This included, among others, the aggressive canvass of direct order for cultivation sales and the strategy of closely tracking the establishment of sales network by the numerous overseas joint-venture supermarkets in the PRC through which we delivered our agricultural produce of excellent quality. By doing so, we strive to increase the Group's market share and strengthen its profit-generating capabilities.

Production Bases

The aggregate area of the Group's farmland in the PRC increased from 131,675 mu (8,778 hectares) as at 31 December 2002 to 165,415 mu (11,028 hectares) as at 31 December 2003, representing an increase of 25.6%. It also represented an increase of 6.5% as compared with 155,315 mu (10,354 hectares) as at 30 June 2003. The Group in total operated 36 production bases covering 13 various provinces and cities in China, including Fujian, Jiangsu, Shaanxi, Hainan, Guangdong, Shandong, Liaoning, Zhejiang, Hubei, Jiangxi, Shanghai, Beijing and Tianjin.



Sales Performance

Growing and sales of crops for the six months ended 31 December 2003 accounted for 90.2% of total turnover, while breeding and sales of livestock and supermarkets chain operation accounted for 2.3% and 7.5% respectively. There had not been any material change to the sales mix by product.

Domestic sales of crops represented 69% for the six months ended 31 December 2003 while export sales of crops (by means of direct sales to overseas customers and local sales by delivery to PRC trading companies) took up the remaining 31%. There had not been any material change to the sales mix by market.

The gross profit margin in the growing and sales of crops, being the principal business of the Group, was 69.5% as compared to the same period last year of 70.5%. The overall gross profit margin of the Group was 65.3% as compared to the same period last year of 69.4%. The decrease in the overall gross profit margin of the Group was attributable to the change in sales mix arising from the supermarkets chain operation (which normally has a much lower margin than that of the growing and sales of crops). There were altogether 7 supermarkets in operations and they are all located in Fuzhou.

Selling and distribution expenses and general and administrative expenses for the six months ended 31 December 2003 represented approximately 9.7% and 5.9% respectively, as compared to the same period last year of 9.4% and 7.0% respectively. The percentage change in the selling and distribution expenses was immaterial. The decrease in the general and administrative expenses was attributable to the serious financial management and the attitude of treasuring the Group's financial resources by the management of the Group.



The pre-tax profit margin for the six months ended 31 December 2003 was 46.9%, as compared to the same period last year of 49.2%. The decrease in pre-tax profit margin of the Group was attributable to the change in sales mix arising from the supermarkets chain operation (which normally has a much lower margin than that of the growing and sales of crops). Net profit margin was 46.9%, as compared to the same period last year of 41.9%. The increase in net profit margin was due to the fact that the Group was awarded as State-Level Agricultural Leading Enterprise of the nation by the central government of the PRC and entitled to the tax benefits of full exemption of income tax. Except the share of taxation attributable to an associated company, there was no other tax provision made during the period.

PROSPECTS

The central government of the PRC issued in early Year 2004 a so-called "No. 1 Document". In the No. 1 Document, it stated that "Leading (or "Dragon Head") enterprises, no matter under what type of ownership, will obtain support from the government in terms of financing, taxation, etc. as long as they are able to bring benefits to farmers...". No. 1 Document is an encouragement and a driving force of Chaoda.

Looking ahead, under the policy of the central government of the PRC, the emergence of increasing number of market participants or competitors is expected to involve in the ecologically grown agricultural industry. As one of the pioneers in the ecologically grown agricultural industry in the PRC, Chaoda will continue to strive for the optimization of its business model. In the past few years, the Group has established production bases in 13 provinces and cities in the mainland China. In the future, Chaoda will further develop its production bases. With its home base in Fujian Province, Chaoda will grasp the opportunity to establish production bases in those provinces or cities with high economic growth. This helps to meet the ever-increasing demand of ecologically grown, green and healthy vegetables and fruits of those provinces and cities. Besides, Chaoda will give priority to develop its production bases nearby those existing ones. This helps to strengthen our production capacity of existing production bases so as to fulfill the demand from the processing companies of agricultural produce, which in turn adds value to the agricultural produce.



Chaoda will also look for opportunities to expand its scope of agricultural development, to penetrate the diversified market demands of agricultural produce and to meet the huge export demand so as to increase its market share in the international market. We commit to do our very best in the expansion of production bases and the market penetration. Under such a favourable policy environment and market conditions, the Group will speed up its expansion plan by leveraging its first mover's advantage so as to solidify its leadership in the agricultural industry in the PRC.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has maintained a solid financial position to underpin its operation. As at 31 December 2003, the Group had cash and bank balances amounting to RMB417,457,000. The Group generated strong cash flows from operations for the six months ended 31 December 2003. Net cash flow from operations for the period was RMB400,802,000 as compared to RMB386,667,000 for the same period last year.

As at 31 December 2003, the Group's gearing ratio was 1.6%. This is based on the division of total borrowings by total assets. Additionally, the Group's current ratio was 4.2 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 2003, the Group had outstanding capital commitments amounting to RMB511,513,000, of which, commitments of RMB215,589,000 are contracted but not provided for, the remaining commitments of RMB295,924,000 have been authorised but not contracted for, in respect of the purchase of fixed assets and research and development expenditure. As at 31 December 2003, the Group did not have any material contingent liabilities.



STAFF AND REMUNERATION POLICIES

As at 31 December 2003, the Group employed 10,922 staff members, of which 8,535 were workers on the Group's farmlands. Employees' 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.

A share option scheme (the "Share Option 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 2003, no options were granted to the relevant participants under the Share Option Scheme.

USE OF SHARE ISSUE PROCEEDS

As at 30 June 2003, the balance of unused share issue proceeds amounts to approximately RMB472,392,000. For the six months ended 31 December 2003, the Group had applied approximately RMB304,231,000 for the construction of farmlands, irrigation system and infrastructure facilities; and approximately RMB855,000 for the expansion of retail networks.

As at 31 December 2003, the net proceeds of RMB167,306,000 which have not yet been utilized in the previous years will continue to be used for the construction of farmlands, irrigation systems and infrastructure facilities and expansion of retail network. The above-mentioned unused proceeds are kept in banks as short-term deposits.

As at 15 January 2004, the Group announced to raise funds by top-up placement of 280,000,000 ordinary shares of the Company, resulting in net proceeds of approximately HK\$683 million. It is the intention of the Group to use (i) approximately HK\$50 million of such net proceeds for land leasing costs in connection with the expansion of the Group's production bases; (ii) approximately HK\$350 million of such net proceeds for the construction of irrigation systems and infrastructure facilities at the Group's production bases; and (iii) approximately HK\$283 million of such net proceeds for general working capital. The above-mentioned unused proceeds are kept in banks as short-term deposits.

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

As at 31 December 2003, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO were as follows:

Long positions in shares of the Company

Name of director	Number of ordinary shares			Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. Kwok Ho	—	2,500,000	986,000,000 (Note 1)	988,500,000	50.88%
Madam Chiu Na Lai	2,500,000	986,000,000 (Note 1)	—	988,500,000	50.88%
Mr. Ip Chi Ming	3,000,000	—	52,000,000 (Note 2)	55,000,000	2.83%
Mr. Chan Hong	500,000	—	—	500,000	0.03%

Notes:

1. Held through Kailey Investment Ltd. in which Mr. Kwok Ho has 800 shares and the spouse, Madam Chiu Na Lai, has 100 shares representing 80% 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.



Long positions in underlying shares of the Company

Share Options in the Company

Name of director	Date of grant	Exercise price HK\$	Exercisable period	Number of shares in respect of options outstanding as at
				31 December 2003
Mr. Kwok Ho	28/01/2003	1.66	01/07/2003 — 27/01/2013	20,000,000
			01/01/2004 — 27/01/2013	20,000,000
			01/01/2005 — 27/01/2013	20,000,000
Madam Chiu Na Lai (Note)	28/01/2003	1.66	01/07/2003 — 27/01/2013	20,000,000
			01/01/2004 — 27/01/2013	20,000,000
			01/01/2005 — 27/01/2013	20,000,000
Mr. Lee Yan	28/01/2003	1.66	01/07/2003 — 27/01/2013	2,000,000
	24/06/2003	1.14	01/07/2003 — 23/06/2013	1,500,000
Mr. Chan Hong	28/01/2003	1.66	01/07/2003 — 27/01/2013	2,000,000
	19/06/2003	1.13	01/07/2003 — 18/06/2013	1,500,000



Name of director	Date of grant	Exercise price HK\$	Exercisable period	Number of shares in respect of options outstanding as at
				31 December 2003
Ms. Wong Hip Ying	28/01/2003	1.66	01/07/2003 — 27/01/2013	1,500,000
	19/06/2003	1.13	01/07/2003 — 18/06/2013	2,000,000
Mr. Fong Jao	28/01/2003	1.66	01/07/2003 — 27/01/2013	2,000,000
	19/06/2003	1.13	01/07/2003 — 18/06/2013	2,000,000

Note: Options in respect of 60,000,000 shares were held by Mr. Kwok Ho.

Long positions in shares of an associated corporation — Kailey Investment Ltd.

Name of director	Number of ordinary shares			Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. Kwok Ho	800 (Note)	100 (Note)	—	900	90%
Madam Chiu Na Lai	100 (Note)	800 (Note)	—	900	90%

Note: Mr. Kwok Ho has 800 shares and the spouse, Madam Chiu Na Lai, has 100 shares representing 80% and 10% respectively of the total issued share capital of Kailey Investment Ltd.



Save as disclosed above, none of the directors, chief executives or their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2003, so far as is known to the Directors, the following parties (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Kailey Investment Ltd. <i>(Note 1)</i>	Beneficial owner	986,000,000	50.75%
Value Partners Limited <i>(Note 2)</i>	Investment manager	126,418,000	6.51%
Cheah Cheng Hye	<i>(Notes 2 and 3)</i>	127,018,000	6.54%

Notes:

1. Kailey Investment Ltd. is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 80% by Mr. Kwok Ho and 10% by Madam Chiu Na Lai. Mr. Kwok Ho is entitled to exercise 80% of the voting powers at general meetings of Kailey Investment Ltd.
2. Value Partners Limited is a company incorporated in the British Virgin Islands with limited liability which is owned as to 31.82% by Mr. Cheah Cheng Hye.
3. 500,000 shares were personally owned by Mr. Cheah Cheng Hye and 100,000 shares were owned by his family member.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES**

Other than as disclosed under the headings "Share Option Scheme" below and "Directors' and Chief Executives' Interests in Securities" above, at no time during the period was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or Chief Executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

On 19 June 2002, the Company adopted the Share Option Scheme, the principal terms of which are set out in the Company's 2002/2003 Annual Report.

Details of the movements of the outstanding share options granted under the Share Option Scheme of the Company during the period under review were as follows:

Number of Shares in respect of Options						
Name or Category of participant	Balance as at 1 July 2003	Exercised during the period	Outstanding	Date of grant	Exercise period	Exercise price per share HK\$
			as at 31 December 2003			
<i>Directors:</i>						
Kwok Ho	20,000,000	—	20,000,000	28/01/2003	01/07/2003 — 27/01/2013	1.66
	20,000,000		20,000,000		01/01/2004 — 27/01/2013	
	20,000,000		20,000,000		01/01/2005 — 27/01/2013	



Name or Category of participant	Number of Shares in respect of Options			Date of grant	Exercise period	Exercise price per share HK\$
	Balance as at 1 July 2003	Exercised during the period	Outstanding as at 31 December 2003			
Ip Chi Ming	5,000,000	5,000,000 (Note 5)	—	28/01/2003	01/07/2003 — 27/01/2013	1.66
	2,500,000	2,500,000	—	24/06/2003	01/07/2003 — 23/06/2013	1.14
Chiu Na Lai	5,000,000	5,000,000 (Note 5)	—	28/01/2003	01/07/2003 — 27/01/2013	1.66
Lee Yan	2,000,000	—	2,000,000	28/01/2003	01/07/2003 — 27/01/2013	1.66
	1,500,000	—	1,500,000	24/06/2003	01/07/2003 — 23/06/2013	1.14
Chan Hong	2,000,000	—	2,000,000	28/01/2003	01/07/2003 — 27/01/2013	1.66
	2,000,000	500,000	1,500,000	19/06/2003	01/07/2003 — 18/06/2013	1.13
Wong Hip Ying	1,500,000	—	1,500,000	28/01/2003	01/07/2003 — 27/01/2013	1.66
	2,000,000	—	2,000,000	19/06/2003	01/07/2003 — 18/06/2013	1.13
Fong Jao	2,000,000	—	2,000,000	28/01/2003	01/07/2003 — 27/01/2013	1.66
	2,000,000	—	2,000,000	19/06/2003	01/07/2003 — 18/06/2013	1.13



Name or Category of participant	Number of Shares in respect of Options			Date of grant	Exercise period	Exercise price per share HK\$
	Balance as at 1 July 2003	Exercised during the period	Outstanding as at 31 December 2003			
<i>Employees:</i>						
In aggregate	8,000,000	2,150,000	5,850,000	28/01/2003	01/07/2003 — 27/01/2013	1.66
	38,700,000	14,200,000	24,500,000	19/06/2003	01/07/2003 — 18/06/2013	1.13
	6,000,000	—	6,000,000	19/06/2003	01/07/2004 — 18/06/2013	1.13
<i>Other Participants:</i>						
In aggregate	4,000,000	4,000,000	—	19/06/2003	01/07/2003 — 18/06/2013	1.13
	1,000,000	—	1,000,000	19/06/2003	01/07/2004 — 18/06/2013	1.13
Total	145,200,000	33,350,000	111,850,000			

Notes:

1. No option has been granted, lapsed or cancelled during the six months ended 31 December 2003.
2. A total of 33,350,000 options were exercised during the six months ended 31 December 2003, of which 100,000, 1,100,000, 3,000,000, 1,000,000, 500,000, 700,000, 7,200,000, 2,300,000, 2,200,000, 1,000,000, 5,900,000, 2,850,000, 5,500,000 were exercised on 1 August, 15 August, 21 August, 1 September, 5 September, 2 October, 27 October, 31 October, 13 November, 24 November, 27 November, 11 December, 31 December 2003 respectively. At the dates before the



options were exercised, the closing prices per share were HK\$1.400, HK\$1.476, HK\$1.600, HK\$1.600, HK\$1.657, HK\$1.514, HK\$1.733, HK\$1.929, HK\$2.024, HK\$2.429, HK\$2.476, HK\$2.643, HK\$2.525 respectively. The weighted average closing price of the share immediately before the dates on which the options were exercised was HK\$2.095.

3. The closing price immediately before the date of options granted is not applicable.
4. The share options granted are not recognized in the financial statements until they are exercised. The Directors consider that it is not appropriate to disclose the value of options granted during the period, since any valuation of the above options would be subject to a number of assumptions that would be subjective and uncertain.
5. 3,000,000 options and 2,500,000 options were exercised by Mr. Ip Chi Ming and Madam Chiu Na Lai respectively on 31 December 2003, but the shares had not been issued to them until 7 January 2004.

AUDIT COMMITTEE

Mr. Fung Chi Kin and Mr. Tam Ching Ho have been appointed as independent non-executive directors of the Company with effect from 1 September 2003; on the same day, Mr. Wong Kong Chi has resigned as independent non-executive director of the Company. Owing to the change of the said independent non-executive directors, the members of the audit committee ("Audit Committee") presently comprise Mr. Fung Chi Kin and Mr. Tam Ching Ho.

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 reporting matters including the review of the unaudited interim financial statements of the Group during the six months ended 31 December 2003.

The Audit Committee meets at least twice each year to review the completeness, accuracy and fairness of the Group's financial statements and to consider the nature and scope of external audit reviews. It also assesses the effectiveness of the systems of internal control. Internal control systems have been designed to allow the Board to monitor the Company's overall financial position and to protect its assets. The purpose is to guard against material financial misstatement or loss. For the meetings of the Audit Committee in the year 2003/2004, the external auditors, the chief financial officer, the financial controller and the executive



directors in charge of financial matters and operations of the Group attended the meetings to answer questions on the reports or their work.

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 31 December 2003 (2002: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2003.

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 31 December 2003, 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, 18 March 2004