



CHAODA MODERN AGRICULTURE (HOLDINGS) LIMITED

超大現代農業(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 682)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

HIGHLIGHTS

Turnover increased by 23% to RMB1,053 million.

EBITDA increased by 22% to RMB555 million.

Net Profit increased by 64% to RMB659 million.

Net Profit increased by 26% to RMB509 million (excluding fair value gained from biological assets)

The Board of Directors (the "Board") of Chaoda Modern Agriculture (Holdings) Limited (the "Company" or "Chaoda") is pleased to present the unaudited interim results for the six months ended 31 December 2004 of the Company and its subsidiaries (collectively the "Group"). The consolidated income statement of the Group for the six months ended 31 December 2004 and the consolidated balance sheet of the Group as at 31 December 2004 (the "condensed accounts") 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, CCIF CPA Limited.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2004

		Six months ended 31 December	
	Note	2004 RMB'000	2003 RMB'000
Turnover	3		
Sales of crops		981,444	774,495
Sales of livestock		21,969	19,557
Supermarkets chain operation		49,219	64,346
		<u>1,052,632</u>	<u>858,398</u>
Cost of sales		(358,584)	(298,246)
Gross profit		694,048	560,152
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	9(i)	150,740	–
Other revenues		19,253	8,002
Selling and distribution expenses		(111,553)	(83,542)
General and administrative expenses		(51,524)	(48,014)
Research expenses		(27,005)	(16,927)
Net other operating expenses		(33,908)	(18,294)
Profit from operations	5	640,051	401,377
Finance costs		(4,634)	(8,595)
Share of results of associates		24,823	10,130
Profit before taxation		660,240	402,912
Taxation	6	(1,666)	(760)
Profit after taxation		658,574	402,152
Minority interests		849	400
Profit for the period		<u>659,423</u>	<u>402,552</u>
Dividends	7	<u>198,494</u>	–
Earnings per share			
– Basic	8(i)	<u>RMB28.1 cents</u>	<u>RMB19.9 cents</u>
– Diluted	8(ii)	<u>RMB27.6 cents</u>	<u>RMB19.7 cents</u>

UNAUDITED CONSOLIDATED BALANCE SHEET

As at 31 December 2004

		As at 31 December 2004 RMB'000	(As restated) As at 30 June 2004 RMB'000
Fixed assets		1,460,076	1,425,932
Construction-in-progress		407,665	409,332
Long-term prepaid rentals		1,446,770	1,138,300
Biological assets	9(ii)	279,434	–
Deferred development costs		74,988	74,758
Land use rights		23,053	23,391
Deferred expenditure		40,815	43,234
Computer software development cost		9,896	19,724
Other long-term deposits		7,000	2,150
Interests in associates	10	298,066	271,558
Current assets			
Biological assets	9(ii)	211,587	–
Inventories	11	20,175	126,406
Accounts receivable	12	90,565	59,669
Other receivables, deposits and prepayments		199,203	206,668
Cash and bank balances		807,663	944,479
		1,329,193	1,337,222
Current liabilities			
Amount due to a related company		9,851	7,306
Accounts payable	13	10,664	9,053
Other payables and accrued charges		50,091	44,298
Bank loans – secured		196,931	38,569
		267,537	99,226
Net current assets		1,061,656	1,237,996
Net assets		5,109,419	4,646,375
Financed by:			
Share capital		248,884	248,479
Reserves		4,859,878	4,396,390
Shareholders' funds		5,108,762	4,644,869
Minority interests		657	1,506
		5,109,419	4,646,375

NOTES TO THE CONDENSED ACCOUNTS

31 December 2004

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 Institute of Certified Public 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 (the “Stock Exchange”).

These condensed interim accounts should be read in conjunction with the annual accounts for the year ended 30 June 2004.

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 2004 except for the first time adoption of the SSAP 36 “Agriculture”.

The principal effect of adoption of SSAP 36 “Agriculture” is in relation to the agricultural activities of the biological assets and agricultural produce of the Group which include fruit trees and tea trees, livestock and vegetables. SSAP 36 requires the measurement of biological assets at their fair value less point-of-sale costs at initial recognition and at each balance sheet date, while agricultural produce harvested from the Group’s biological assets should be measured at its fair value less estimated point-of-sale costs at the point of harvest. The gain (or loss) arising on initial recognition of biological assets at fair value less estimated point-of-sale costs is recognised in the consolidated income statement. Certain new disclosure requirements for biological assets and agricultural produce were introduced. The adoption of SSAP 36 has resulted in changing the Group’s accounting policy and applied retrospectively. As a result, comparative figures have been restated unless it is impracticable to measure the fair values of the biological assets for the previous period.

3. TURNOVER

The principal activities of the Group are the growing and sales of the crops, breeding and sales of livestock, and supermarkets chain operation.

Turnover represents the sales value of goods supplied to customers. The amount of each significant category of revenue recognised in turnover during the period is as follows:

	Six months ended 31 December	
	2004	2003
	RMB’000	RMB’000
Sales of crops	981,444	774,495
Sales of livestock	21,969	19,557
Supermarkets chain operation	49,219	64,346
	<u>1,052,632</u>	<u>858,398</u>

4. SEGMENT INFORMATION

The Group is principally engaged in the growing and sales of crops, breeding and sales of livestock, supermarkets chain operation. The results of the major business activities for the six months ended 31 December 2004 and 2003 are summarised below:

For the six months ended 31 December 2004

	Growing and sales of crops RMB’000	Breeding and sales of livestock RMB’000	Supermarkets chain operation RMB’000	Inter-segment elimination RMB’000	Total RMB’000
Turnover	981,557	21,969	49,219	(113)	1,052,632
Cost of sales	(306,079)	(7,509)	(45,109)	113	(358,584)
Gross profit	675,478	14,460	4,110	-	694,048
Unallocated items:					
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets					150,740
Other revenues					19,253
Selling and distribution expenses					(111,553)
General and administrative expenses					(51,524)
Research expenses					(27,005)
Net other operating expenses					(33,908)
Profit from operations					640,051
Finance costs					(4,634)
Share of results of associates					24,823
Profit before taxation					660,240
Taxation					(1,666)
Minority interests					849
Profit for the period					<u>659,423</u>

For the six months ended 31 December 2003

	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>	Inter-segment elimination <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover	776,279	19,557	64,346	(1,784)	858,398
Cost of sales	(238,179)	(4,207)	(57,644)	1,784	(298,246)
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					(48,014)
Research expenses					(16,927)
Net other operating expenses					(18,294)
Profit from operations					401,377
Finance costs					(8,595)
Share of results of associates					10,130
Profit before taxation					402,912
Taxation					(760)
Minority interests					400
Profit for the period					<u>402,552</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.

Growing and sales of crops is the Group's primary business segment. The 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 2004 and 2003. 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 5% of the Group's corresponding consolidated totals for the periods ended 31 December 2004 and 2003. Consequently, no segment information by geographical area is presented.

5. PROFIT FROM OPERATIONS

Profit from operations is stated after (crediting)/charging the followings:

	Six months ended 31 December	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Crediting		
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	(150,740)	–
Amortisation of negative goodwill	(4,068)	(4,068)
Interest income	(3,435)	(3,250)
Charging		
Depreciation of owned fixed assets (net of amount capitalised in inventories)	47,816	36,287
Operating lease expenses		
– land and buildings	29,154	21,982
– motor vehicles	51	193
Staff costs	85,921	66,995
Amortisation of deferred development cost	2,570	1,309
Amortisation of long-term prepaid rentals (net of amount capitalised in inventories)	8,405	7,655
Amortisation of computer software development cost	9,828	9,804
Amortisation of deferred expenditure	4,713	6,609
Amortisation of land use rights	338	–
Research expenses	27,005	16,927
Loss on disposal of fixed assets	2,821	2,317
Bad debts written off	–	342

6. TAXATION

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

	Note	Six months ended 31 December	
		2004 RMB'000	2003 RMB'000
PRC income tax	(i)	–	–
Hong Kong profits tax	(ii)	–	–
		–	–
Share of taxation attributable to associate	(iii)	<u>1,666</u>	<u>760</u>
		<u>1,666</u>	<u>760</u>

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 PRC 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 is no estimated assessable profits (2003: Nil) for the company and its subsidiaries operating in Hong Kong during the period.
- (iii) It represents the share of PRC income tax charged on the assessable profits of Lucky Team Biotech Development (Hepu) Limited, ("Hepu") a 47.5% associate owned by a wholly owned subsidiary of the Group.

Hepu is a Foreign Investment Enterprise ("FIE") and operates in Guangxi Province, the PRC. The preferential foreign enterprise income tax rate for productive FIEs in this region is 15% up to the year 2010 in accordance with the policy in relation to promoting the economic development of Central and Western China. Hepu is entitled to FIE tax holidays in accordance with the relevant tax rules and regulations applicable to FIE in the PRC and the 2 years tax exemption period was lapsed during the year ended 30 June 2002. Hepu has been subject to a reduced income tax rate of 7.5% for a tax reduction period of 3 years.

- (iv) The Group has not recognised deferred tax asset in respect of tax losses of RMB21,132,000 (as at 30 June 2004: RMB17,637,000). The tax losses are mainly attributable from the expenses incurred by the Company. Since the principal activity of the Company is investment holding, no taxable revenue inflow is expected in the foreseeable future. The deferred tax assets are therefore not recognised as the realisation is uncertain.

The charge for the period is reconciled to the profit before taxation per unaudited consolidated income statement as follows:

	Six months ended 31 December	
	2004 RMB'000	2003 RMB'000
Profit before tax	<u>660,240</u>	<u>402,912</u>
Notional tax on profit before tax, calculated at the rate applicable to profits in the countries concerned	150,217	122,770
Tax effect of expense/(income) that are not deductible/ taxable in determining taxable profit and tax allowance	117,876	(448)
Tax effect of non-taxable offshore profit	(34,789)	(209)
Tax effect of unrecognised tax losses	(28,350)	7,077
Tax effect of exemption benefits under State-Level Agricultural Leading Enterprise	(204,954)	(129,190)
Share of tax of associate	<u>1,666</u>	<u>760</u>
	<u>1,666</u>	<u>760</u>

7. DIVIDENDS

		Six months ended 31 December	
		2004	2003
	Note	RMB'000	RMB'000
2003/2004: Final, paid, of HK\$0.073 per share and special, paid, of HK\$0.007 per share (2002/2003: Nil)	(i)	<u>198,494</u>	<u>–</u>

(i) At the annual general meeting held on 25 November 2004, final dividend for the year ended 30 June 2004 of HK\$0.073 per ordinary share and a special dividend of HK\$0.007 per ordinary share for the exceptional income of tax provided in prior years being written back during the year ended 30 June 2004 were declared. Both dividends were paid during the period and the amount was reflected as appropriation of retained earnings for the six months ended 31 December 2004.

(ii) The directors do not recommend the payment of an interim dividend for the six months ended 31 December 2004 (2003: Nil).

8. 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 RMB659,423,000 (2003: RMB402,552,000) and the weighted average number of 2,343,355,436 (2003 (restated): 2,020,719,339 after adjusting for the bonus shares issued in 2004) ordinary 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 RMB659,423,000 (2003: RMB402,552,000) and the weighted average number of 2,385,318,369 (2003 (restated): 2,040,085,631 after adjusting for the bonus shares issued in 2004) ordinary 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	
	2004	2003
Weighted average number of ordinary shares used in calculating basic earnings per share	2,343,355,436	2,020,719,339
Deemed issued of ordinary shares	<u>41,962,933</u>	<u>19,366,292</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>2,385,318,369</u>	<u>2,040,085,631</u>

9. BIOLOGICAL ASSETS

(i) The biological assets, representing fruit trees and tea trees, livestock, and vegetables, are summarised as follows:

	Fruit trees and tea trees		Livestock		Vegetables		Total
	Area (Mu)	RMB'000	Number	RMB'000	Area (Mu)	RMB'000	RMB'000
Reclassified from fixed assets and inventories	27,318	252,416	4,176	11,390	144,571	76,475	340,281
Gain arising from changes in fair value less estimated point-of-sale costs		<u>11,398</u>		<u>4,230</u>		<u>135,112</u>	<u>150,740</u>
At 31 December 2004	<u>27,318</u>	<u>263,814</u>	<u>4,176</u>	<u>15,620</u>	<u>144,571</u>	<u>211,587</u>	<u>491,021</u>

(ii) The analysis of the above is as follows:

	Fruit trees and tea trees RMB'000	Livestock RMB'000	Vegetables RMB'000	Total RMB'000
Non-current portion	263,814	15,620	–	279,434
Current portion	<u>–</u>	<u>–</u>	<u>211,587</u>	<u>211,587</u>
	<u>263,814</u>	<u>15,620</u>	<u>211,587</u>	<u>491,021</u>

The biological assets as at 31 December 2004 are stated at fair values less estimated point-of-sale costs.

In accordance with the valuation report issued by Sallmanns, an independent professional valuer, the fair values less estimated point-of-sale costs of the biological assets are determined under the following basis:

- (a) Fruit trees and tea trees: present value of expected net cash flows from the biological assets discounted at a current market-determined pre-tax rate; and
- (b) Livestock: market-determined prices of biological assets with similar size, species and age.

The fair values of vegetables are determined by the Directors with reference to market-determined prices, cultivation area, species, growing conditions, cost incurred and expected yield of the crops.

The valuation methodology is in compliance with SSAP 36 to determine the fair values of biological assets in their present location and condition.

(iii) Output for biological assets

	Six month ended 31 December 2004
	<i>Quantity</i>
Total output for the period	
– Fruit trees and tea trees	32,869 Tonnes
– Livestock	5,785 Heads
– Vegetables	<u>374,952 Tonnes</u>

10. INTERESTS IN ASSOCIATES

	As at 31 December 2004	As at 30 June 2004
	<i>RMB'000</i>	<i>RMB'000</i>
Share of net assets		
– as previously reported	391,719	378,042
– effect of adoption of SSAP 36	35,803	28,140
– effect of fixed assets revaluation	3,727	3,685
	<u>431,249</u>	<u>409,867</u>
– as restated	(134,241)	(138,309)
Negative goodwill on acquisition less accumulated amortization	1,058	–
Amount due from an associate	<u>298,066</u>	<u>271,558</u>

The associated companies operate citrus farms in Guangxi and Jiangxi Provinces, the PRC.

11. INVENTORIES

		As at 31 December 2004	As at 30 June 2004
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Growing crops	<i>(i)</i>	–	100,641
Livestock	<i>(i)</i>	–	11,667
Agricultural materials	<i>(ii)</i>	6,675	4,713
Merchandise for resale	<i>(ii)</i>	13,500	9,385
		<u>20,175</u>	<u>126,406</u>

(i) RMB100,641,000 of growing crops and RMB11,667,000 of livestock have been reclassified into biological assets at 1 July 2004 after the adoption of SSAP 36 in current period.

(ii) At 31 December 2004 and 30 June 2004, all inventories were stated at cost.

12. ACCOUNTS RECEIVABLE

The Group granted a credit term of 30 to 150 days to the majority of its customers.

At 31 December 2004, the analysis by age of the accounts receivable of the Group was as follows:

	As at 31 December 2004 RMB'000	As at 30 June 2004 RMB'000
0 – 1 month	83,433	55,904
1 – 3 months	645	507
Over 3 months	6,487	3,258
	<u>90,565</u>	<u>59,669</u>

13. ACCOUNTS PAYABLE

At 31 December 2004, the analysis by age of the accounts payable of the Group was as follows:

	As at 31 December 2004 RMB'000	As at 30 June 2004 RMB'000
0 – 1 month	5,367	4,202
1 – 3 months	3,595	4,807
Over 3 months	1,702	44
	<u>10,664</u>	<u>9,053</u>

14. SUBSEQUENT EVENTS

- (i) On 24 January 2005, the Group has early repaid in full the syndicated loan with banks of US\$21,000,000 (approximately equivalent to RMB173,431,000).
- (ii) On 1 February 2005, the Company and certain investment banks entered into a conditional purchase agreement (the “Agreement”) pursuant to which the investment banks have conditionally agreed to purchase the 7.75% Guaranteed Senior Notes due 2010 in the aggregate principal amount of US\$225 million (approximately equivalent to RMB1,858 million) issued by the Company (the “Notes”). The Notes are unconditionally and irrevocably guaranteed by the capital stock of certain subsidiaries of the Group. Upon the satisfaction of certain conditions in the Agreement, the Notes were successfully issued on 7 February 2005.

15. COMPARATIVE FIGURES

- (i) With the adoption of the SSAP 36 “Agriculture”, the presentation in the current period’s financial statements has been modified in order to conform with SSAP 36 requirements. The adoption of SSAP 36 resulted in a change of accounting policy in respect of its biological assets and agricultural produce. As such comparative figures have been reclassified and restated in order to achieve a consistent presentation unless it is impracticable to measure the fair values of the biological assets for the previous period. The effect of which has been quantified in note 9 of the condensed accounts.
- (ii) Certain other comparative amounts have been reclassified to conform with the current period’s presentation.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31 December 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Financial Review

For the six months ended 31 December 2004, turnover and profit for the period of the Group amounted to approximately RMB1,052,632,000 and RMB659,423,000 respectively, representing an increase of 22.6% and 63.8% as compared to the same period last year. Sales of crops has increased in volume from 319,600 tonnes to 407,821 tonnes.

Production Bases

The aggregate area of the Group’s farmland (excluding mountain area) in the PRC increased from 140,487 mu (9,366 hectares) as at 31 December 2003 to 171,889 mu (11,459 hectares) as at 31 December 2004, representing an increase of 22.4%. It also represented an increase of 9.9% as compared with 156,439 mu (10,429 hectares) as at 30 June 2004.

The weighted average production area for crops increased from 103,229 mu (6,882 hectares) as at 31 December 2003 to 137,738 mu (9,183 hectares) as at 31 December 2004, representing an increase of 33.4%. It also represented an increase of 23.2% as compared with 111,835 mu (7,456 hectares) as at 30 June 2004. The Group in total operated more than 30 production bases covering different provinces and cities in China.

Sales Performance

Growing and sales of crops for the six months ended 31 December 2004 accounted for 93.2% of total turnover, while breeding and sales of livestock and supermarkets chain operation accounted for 2.1% and 4.7% respectively. Except for the shrink of supermarkets chain operation, there had not been any material change to the sales mix by product.

Domestic sales of crops represented 69.5% for the six months ended 31 December 2004 while export sales of crops took up the remaining 30.5%. 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 68.8%. There had not been any material change as compared to the same period last year of 69.5%. The overall gross profit margin of the Group was 65.9% as compared to the same period last year of 65.3%. The slight increase in the overall gross profit margin of the Group was attributable to the shrink in supermarkets chain operations that are of lower gross profit margin than that of the growing and sales of crops.

Selling and distribution expenses and general and administrative expenses for the six months ended 31 December 2004 represented approximately 10.6% and 4.9% respectively, as compared to the same period last year of 9.7% and 5.9% respectively. The percentage change in the selling and distribution expenses was attributable to higher distribution and packaging costs incurred in relation to increase in sales of crops through institutional channels (mainly hypermarkets) which demands for more sophisticated packaging on delivery. 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 2004 was 62.7%, as compared to the same period last year of 46.9%. Net profit margin was 62.6%, as compared to the same period last year of 46.9%. The increase in pre-tax profit margin and net profit margin of the Group was attributable to gain arising from change in fair value less estimated point-of-sale cost of biological assets upon adoption of the SSAP 36 "Agriculture" which was adopted the first time during the period under review. Except the share of taxation attributable to an associated company, there was no other tax provision made during the period.

Other Operating Data

For the six months ended 31 December 2004, the other operating data relating to the Group's principal business of growing and sales of crops include the yield per mu of 2.96 tonnes and the yield per mu per harvest of 1.86 tonnes as compared to the same period last year of 3.10 tonnes and 1.79 tonnes respectively. The average sales unit price per kg was RMB2.41 as compared to the same period last year of RMB2.42. There had not been any material change in other operating data during the period under review.

STAFF AND REMUNERATION POLICIES

As at 31 December 2004, the Group employed 11,638 employees, of which 9,847 were workers on the Group's farmlands. Employees' salaries are determined at a competitive level.

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

PROSPECTS

In the No. 1 Document issued in the beginning of 2004, and as set out in the recent government work report, the importance of the "peasants, rural villages and agriculture industry" issues were recognized. Under the favorable State policies, and near to its final stage of WTO negotiation, China agricultural industry will under pressure of having increasing number of industry players who compete with one another for the ecologically grown agricultural industry along with overseas agricultural produce of high quality at low price. As one of the pioneers in the ecological grown agricultural industry in the PRC, Chaoda will capitalize on market opportunities, to proactively expand its enterprise scale in a steady manner, promotes its brand influence internationally and strengthens the Group's leading position in the PRC's agricultural industry.

In respect of the production base expansion strategy, Chaoda will grasp the opportunity to establish production bases in those provinces or cities with high economic growth and ecologically-friendly environment. This helps to meet the ever-increasing demand of ecological grown, green and healthy vegetable and fruits of those provinces and cities. Besides, Chaoda will give priority to develop its production bases nearby those existing ones, to strength our production capacity of existing production bases so as to fulfill the demand from processing plants of agricultural produce; Chaoda will progressively explore opportunity to expand operations into middle to downstream vegetable sector so as to add value to the agricultural produce.

POLICIES AND PERFORMANCE ON COMMUNITY, SOCIAL, ETHICAL AND REPUTATIONAL ISSUES

The Group endeavors to continually follow closely with the agriculture policy of the PRC, and will always be considerate for the rights and benefits of the peasants. Leveraging on the unique business philosophy and model of Chaoda, the peasants can be benefited through the enterprise behaviour in operating in the agricultural industry. Standardization of processes in modern agriculture helps to improve the planting technique of the peasants, to increase rural income and to help the stabilization of rural villages. To show our ongoing concern of the peasants, Chaoda have set January of every year as “The Month for the Peasants”.

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period under review, the Company purchased 1,890,000 shares of HK\$0.1 each in the capital of the Company on 5 August 2004 at price ranging from approximately RMB2.03 (HK\$1.92) to approximately RMB2.17 (HK\$2.05) per share on the Stock Exchange. Such purchases involved a total cash outlay of approximately RMB3,987,314 (HK\$3,765,880).

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 31 December 2004.

AUDIT COMMITTEE

The Audit Committee presently comprises three Independent Non-executive Directors, namely, Mr. Fung Chi Kin, Mr. Tam Ching Ho and Madam Luan Yue Wen. 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 for the six months ended 31 December 2004.

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.

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 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all of the Directors have confirmed that they have complied with the standards set out in the Model Code during the six months ended 31 December 2004.

GENERAL

The Board as of the date of this announcement comprises Mr. Kwok Ho, Mr. Ip Chi Ming, Dr. Lee Yan, Mr. Chan Hong, Ms. Wong Hip Ying and Mr. Fong Jao as the executive directors of the Company and Mr. Fung Chi Kin, Mr. Tam Ching Ho, Professor Lin Shun Quan and Madam Luan Yue Wen as the independent non-executive directors of the Company.

On behalf of the Board
Kwok Ho
Chairman

Hong Kong, 23 March 2005

Please also refer to the published version of this announcement in SCMP-Classified.