



**CHAODA MODERN AGRICULTURE  
(HOLDINGS) LIMITED**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 682)

**ANNUAL REPORT**



**2006 / 2007**

Sustainable Growth  
Mutual Prosperity

# Contents

	<i>Pages</i>
<b>Corporate Information</b>	2
<b>Financial Highlights</b>	3
<b>Chairman's Statement</b>	5
<b>Management Discussion and Analysis</b>	9
<b>Investor Relations</b>	13
<b>Corporate Governance Report</b>	19
<b>Profiles of Directors and Senior Executives</b>	24
<b>Directors' Report</b>	28
<b>Independent Auditors' Report</b>	39
<b>Consolidated Income Statement</b>	40
<b>Consolidated Balance Sheet</b>	41
<b>Balance Sheet</b>	43
<b>Consolidated Cash Flow Statement</b>	44
<b>Consolidated Statement of Changes in Equity</b>	46
<b>Notes to the Financial Statements</b>	47
<b>Five Year Financial Summary</b>	100



# Corporate Information

## Board of Directors

### Executive Directors:

Kwok Ho (*Chairman*)  
Ip Chi Ming  
Lee Yan  
Wong Hip Ying  
Fong Jao  
Chen Jun Hua  
Chan Chi Po, Andy

### Independent Non-executive Directors:

Fung Chi Kin  
Tam Ching Ho  
Lin Shun Quan  
Luan Yue Wen

## Audit Committee

Tam Ching Ho (*Chairman*)  
Fung Chi Kin  
Luan Yue Wen

## Remuneration Committee

Fung Chi Kin (*Chairman*)  
Tam Ching Ho  
Luan Yue Wen  
Chen Jun Hua

## Authorised Representatives

Kwok Ho  
Ip Chi Ming

## Qualified Accountant

Chan Chi Po, Andy

## Company Secretary

Yeung Pik Chun, Colana

## Stock Code

682

## Solicitors

Norton Rose Hong Kong  
Maples and Calder

## Auditors

Grant Thornton  
*Certified Public Accountants*

## Principal Bankers

Bank of China (Hong Kong) Limited  
CITIC Ka Wah Bank Limited  
China Merchants Bank  
CITIC Industrial Bank  
Fujian Industrial Bank

## Registered Office

P.O. Box 309, Uglan House  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

## Head Office and Principal Place of Business in Hong Kong

Room 2705, 27th Floor  
China Resources Building  
26 Harbour Road  
Wanchai, Hong Kong

## Share Registrar and Transfer Office

Tricor Abacus Ltd.  
26th Floor  
Tesbury Centre  
28 Queen's Road East  
Wanchai, Hong Kong

## Website

<http://www.chaoda.com.hk>  
<http://www.irasia.com/listco/hk/chaoda>



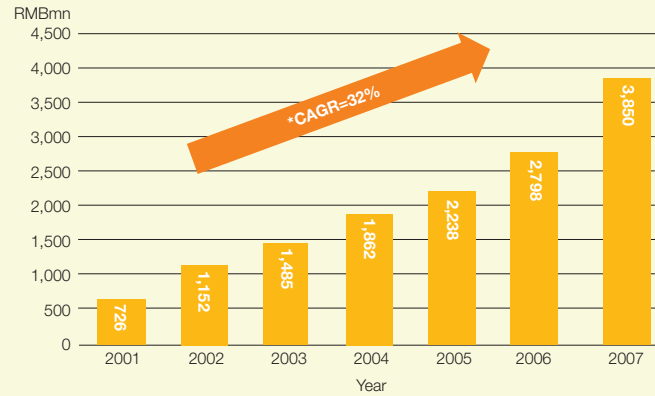
## Financial Highlights

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>	Increase/ (Decrease)
<b>OPERATING RESULTS</b>			
Turnover	<b>3,849,930</b>	2,797,707	38%
Gross profit	<b>2,636,551</b>	1,893,561	39%
Profit attributable to equity shareholders of the Company	<b>1,732,724</b>	1,358,235	28%
Earnings per share			
— Basic	<b>RMB73 cents</b>	RMB57 cents	28%
— Diluted	<b>RMB71 cents</b>	RMB56 cents	27%
<b>FINANCIAL RATIOS</b>			
Gross profit margin	<b>68%</b>	68%	
Net profit margin	<b>45%</b>	49%	
Debt to equity	<b>35%</b>	45%	
Current ratio	<b>23</b>	20	
Accounts receivable turnover (Days)	<b>25</b>	13	
<b>OPERATING DATA</b>			
Total production base area (Mu)	<b>363,656</b>	278,056	31%
Weighted average production area for vegetables (Mu)	<b>258,361</b>	202,269	28%
Harvest ratio for vegetables (Times of harvest/year)	<b>3.10</b>	2.97	4%
Annual yield per mu for vegetables (Tonnes)	<b>5.88</b>	5.54	6%
Yield per harvest for vegetables (Tonnes/mu)	<b>1.89</b>	1.87	1%



## Financial Highlights *(Continued)*

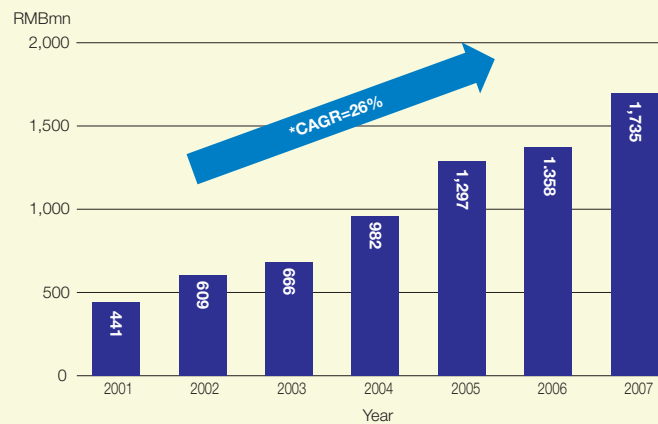
### Turnover



### Operating Profit



### Net Profit



\*CAGR = Compound Annual Growth Rate



# Chairman's Statement

I am pleased to present the annual results for Chaoda Modern Agriculture (Holdings) Limited (the "Company" or "Chaoda") and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2007. This is the seventh annual results report since the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited on 15 December 2000.

## Industry and Business Review

The fruit and vegetable market of China was stable during the past year. Total area under cultivation and vegetable production both grew at faster rates than in 2005. In year 2006, 18.18 million hectares in China were being used to grow vegetables, an increase of 460,000 hectares or 2.6% from 2005. China produced 582 million tonnes of vegetables, up 3.2%. According to Customs statistics, vegetable exports (including frozen vegetables, processed vegetables and dried vegetables) totaled 7.32 million tonnes, an increase of 7.7% from 2005. Export value was US\$5.42 billion, up 21.0%. In the first half of 2007, China exported 3.87 million tonnes of vegetables, up 15.2% from the first half of 2006. Export value was US\$3.02 billion, up 22.7%.

In the past year, the government announced various policies and measures to promote the development of the agricultural industry and to address the "Three Rural Issues Related to Agricultural Industry, Rural Areas and Farmers". In January 2007, the State Council issued the fourth "No. 1 Document". Based on policies contained in the last three documents, this document firmly establishes the development of modern agriculture as the number one priority in the task of building a new countryside.

The Group continued to achieve strong results over the past year. Turnover and profits attributable to equity shareholders were RMB3,849,930,000 and RMB1,732,724,000 respectively, up 38% and 28%. Land under cultivation increased to 363,656 mu and crop sales increased to 1,554,799 tonnes. While achieving strong performance in its financial results, Chaoda also earned government recognition for its efforts in addressing the "Three Rural Issues". The Group was presented with various awards. For example, in April 2007, Ministry of Agriculture, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce, the People's Bank of China, State Administration of Taxation, China Securities Regulatory Commission and All China Federation of Supply and Marketing Cooperatives jointly named Chaoda as one of the "National-level Dragon Head Leading Agricultural Enterprise". In 2007, Chaoda once again won the award for "The Best Corporate Image in Fujian Province".

We believe that brand building is a cornerstone for the development of modern agriculture. The Group has attached great importance to the development and strengthening of its brand. In June 2007, the World Brand Laboratory ranked Chaoda among "China's 500 Most Valuable Brands" for the fourth time. With a brand value of RMB4.88 billion, Chaoda's ranking improved to 123. In September 2007, Chaoda was ranked again among "Asia's 500 Most Influential Brands of the Year 2007" by the World Brand Laboratory. Chaoda was the only brand to be awarded amongst its Asian peers. With its prominence, sustainable quality and credibility, "Chaoda" has become an agricultural icon in China which commands a competitive edge in the international market.



## Chairman's Statement *(Continued)*

### Development Strategy

Looking ahead, we believe the government will continue to intensify its efforts to enhance the development of modern agriculture and to maintain the continuity of its policy for the countryside. More measures are expected to be carried out in facilitating the development of agriculture so that the mission of building a new countryside can be fulfilled. The government will also strengthen policies and measures related to food quality and safety issues. On 18 August 2007, the State Council issued a white paper on "The Current Situation of Food Safety in China". This is the first time the government has issued a white paper on the food safety situation. It was designed to raise public awareness of food safety and to bring public scrutiny to the issue.

### Business Development

With strong support from the government, we firmly believe that the agriculture operating environment in China will continuously improve. Chaoda will treasure this opportunity and focus on developing its core operations. Our key bases for development will remain in four major regions, Northeast China, North China, the Yangtze River area and South China. We will actively look for complementary production bases in other areas that are endowed with rich land resources. While expanding our production bases, we will further improve the facilities at our existing bases.

### Strengthening Team Building

Human resources are an enterprise's most important assets. The Group emphasizes the importance of training its management team. It has cooperated with higher education and professional institutions to provide job training to the management team. In September 2006, the Group initiated a professional training program for its management team with a series of training courses on management hierarchy and corporate coaching. The overall standard and working capabilities of the management team were improved through the acquisition of management knowledge, management skills training and drill training. Meanwhile, the Group arranged for the management staff to practise at its bases. This enabled them to have closer contacts with farmers and thus better understand them. Operational management skills were further enhanced. The group also emphasizes on training new devoted talents for both management and R&D positions.

In light of the relatively low skills among farmers in China, the Group has engaged agricultural specialists to provide them with flexible and practical training which combines relevant modern technology with applications. In this way, the farmers gain access to the latest technical know-how and cultivation technology. Going forward, we will continue to insist on the people first principle and will create a humanitarian environment within the Group, providing talented employees with opportunities and a suitable growth environment for their self-fulfillment.

### Sustainable Growth and Mutual Prosperity

While the Group has been growing and creating value for shareholders, we as a corporate citizen are well aware that our wealth originates from society. We have a responsibility to take on social responsibilities and fulfill our role as a corporate citizen. We believe that corporate development is in harmony with social development and benefits everyone in the long term. By gaining society's support, an enterprise can achieve sustainable development. This is a corporate value we cherish.



## Chairman's Statement *(Continued)*

### Sustainable Growth and Mutual Prosperity *(Continued)*

Chaoda's business model of "company + bases + farmers" symbolizes the harmonious combination of corporate development and social development. It not only helps increase farmers' incomes but is also good for environmental protection and food safety.

#### Increase Farmers' Incomes

The Group consolidates the otherwise fragmented plots of land from farmers through long-term leases. Under the unified production arrangement, farmers are recruited to cultivate the farmland and economies of scale are thus enjoyed. Farmers become professional farm workers with higher skills and their income rises substantially. Chaoda provides enormous employment opportunities in the areas where it operates, maintaining the stability of the rural community, increasing farmers' incomes and propelling economic development in rural areas.

#### Standardization and Food Safety

Food safety is a growing concern for consumers in China and around the world. They are in particular concerned about the use of pesticides and chemical fertilizers. Chaoda has placed great emphasis on the quality of its products and believes that food safety is vitally important for the Company. It has actively promoted the standardization of agricultural practices by formulating and enforcing technical and operational requirements that must be met before, during and after the production process. Product quality and food safety are closely monitored from the growing stage until the product is served. Before the construction of production bases, the Group explores and examines in detail the neighboring environment to ensure the bases and the surrounding environment are free from contamination. The Group also standardizes its planting, fertilization and pest control management. Under the unified guidance of specialists, products are subject to standardized examinations at quality control centers before they are distributed to the market. We are leading the way in establishing a produce ID and tracking system to ensure the quality and safety of our products.

#### Environmental Protection

Land is the basis for our survival and growth. We well recognize that land conservancy and environmental protection are the keys for the sustainable development of the enterprise. For this reason, the Group has adopted ecological and green cultivation methods. We mainly use organic fertilizers in our production. These are made from natural ingredients and thus improve the soil's ability to absorb nutrients and help to reduce soil exhaustion. For pest management, the Group uses an integrated pest management system by taking advantage of a biological approach as well as organic chemicals to minimize the impact of the use of pesticides on food. China's water supply is scarce. We construct various facilities including irrigation, drainage and sprinkler systems to enhance efficiency and to save water.

#### Charity Activities

In August 2006, the super typhoon Saomai made landfall in Fujian Province. In response, the Group swiftly organised a disaster relief fund. To help students with excellence in character and learning, the Group set up "Chaoda scholarships" and "Chaoda grants" at the China Agricultural University, Nanjing Agricultural University and Fujian Agriculture and Forestry University in order to encourage them to become professionals for the agriculture industry. In April 2007, the "Chaoda Love Foundation" was established within the Group to raise funds for staff and farmers in need.





## Chairman's Statement *(Continued)*

I would like to take this opportunity to stress that the Group's achievements are attributable to its advanced business model and management commitments. It is a great honour for me to have started Chaoda and become a member of its outstanding management team. My commitment to and enthusiasm for the Company have never waned. With this team and our passion, I believe that Chaoda will continue to experience rapid growth in the vegetable and fruit market.

As a corporate citizen, Chaoda and its management are committed to its sustainable growth. We aim to share the fruits of our development with customers, employees and investors and create mutual prosperities for the long run.

**KWOK Ho**

*Chairman*

16 October 2007



# Management Discussion and Analysis

## Results Review

For the financial year ended 30 June 2007, the turnover of the Group recorded a substantial increase of RMB1,052 million or 38% and rose to RMB3,850 million from last financial year's RMB2,798 million.

The solid growth in business was largely driven by, first, the revenue contributed by the increase in output as a result of the expansion in production bases and, secondly, the strong demand for high quality agricultural products. The other reason for the growth was the improvement in production of crops per mu.

Benefited from the favourable agricultural market and the increase in sales, the gross profit of the Group increased by RMB743 million or 39% to a record of RMB2,637 million compared with the gross profit of RMB1,894 million for the last financial year. The gross profit margin of the Group for the year under review maintained at its high level of 68%, the same as last financial year.

### Operating Profit

Selling and distribution expenses were controlled at RMB401 million or 10.4% of the turnover, compared with RMB294 million or 10.5% of the turnover in the last financial year. The general and administration expenses were of RMB247 million or 6.4% of the turnover, compared with RMB153 million or 5.5% of the turnover in the preceding financial year.

As a result, the operating profit of the Group for the current financial year rose to RMB2,008 million, an increase of RMB517 million or 35% from RMB1,491 million in the preceding financial year.

### Profit Attributable to Equity Shareholders

For the financial year under review, profit attributable to equity shareholders amounted to RMB1,733 million, representing an increase of RMB375 million or 28% compared with RMB1,358 million for the same period last year.

Profit attributable to equity shareholders for the year under review was affected by two major non-cash flow items, changes in fair value of biological assets and convertible bonds, which recorded a gain of RMB149 million and a loss of RMB247 million respectively.

Excluding these two major non-cash flow items, the Group's profit attributable to equity shareholders adjusted to RMB1,831 million, represented an increase of RMB621 million or 51% from RMB1,210 million of last financial year.

## Agricultural Land

Various factors including environment, natural protection, soil conditions, climate and accessibility have been considered in selecting the appropriate production bases for the future development of the Group. Rent paid for a production base normally consists of a prepaid premium and an annual payment. The leases of production bases for vegetables generally run for a period ranging from 20 to 30 years.



## Management Discussion and Analysis *(Continued)*

### Agricultural Land *(Continued)*

Total production base area of the Group's core business, including vegetable land, tea garden and fruit garden, as at 30 June 2007 was 363,656 mu (24,244 hectares), an increase of 31% from 278,056 mu (18,537 hectares) as at 30 June 2006. Regarding production base area for vegetables, it amounted to 275,361 mu (18,357 hectares) as at 30 June 2007, an increase of 14% from 242,261 mu (16,151 hectares) as of last financial year end.

Despite the sizable increase in production base area, its number slightly increased to 31 production bases operated in 15 different provinces and cities in the PRC. The development is in line with the Group's strategy to better its manpower and planning by expanding its existing production bases and centralizing its resources on larger production bases.

The distribution of the production bases in the PRC is largely in Northeast China, North China, the Yangtze River area, South China, as well as other complementary areas.

## Segmental Performance

### Product Mix

The core business of the Group was sales of crops, which amounted to RMB3,813 million representing 99% of the turnover. It also represented an increase of 41.3% from RMB2,698 million in the preceding financial year. Gross profit margin for sales of crops was about 69%, the same level as last financial year.

### Sales of Crops

Sales of crops amounted to 1,554,799 tonnes, an increase of 39% compared with 1,117,919 tonnes in the preceding financial year. Vegetables were the main produce and came to 1,530,739 tonnes representing about 98% of the total quantity for the sales of crops.

Sales of the crops by markets were maintained at last financial year's proportion with 69% for domestic market and 31% for export. Of the 69% sales in the domestic market, 62% represented sales made to wholesale buyers, 6% to institutional buyers with the rest of 1% to retail buyers.

The annual yield for vegetables was 5.88 tonnes per mu and the yield per mu per harvest for vegetables was 1.89 tonnes, representing an increase of 6% and 1% respectively, compared with the annual yield per mu at 5.54 tonnes and the yield per mu per harvest of 1.87 tonnes in the last financial year. The average selling price for crops was RMB2.45 per kg, an increase of 2% from RMB2.41 of last financial year.



## Management Discussion and Analysis *(Continued)*

### Charge on Asset

At 30 June 2007, the Group had total banking facilities amounting to RMB40 million which were secured by a corporate guarantee provided by one of the subsidiaries and, at that date, the Group has not utilized these facilities.

The shares of certain subsidiaries of the Group were pledged for the issuance of the following debt securities:

1. US\$225 million 7.75% guaranteed senior notes due on 8 February 2010;
2. HK\$1,344 million zero coupon convertible bonds due on 8 May 2011.

Details of the guaranteed senior notes and the zero coupon convertible bonds are set out in notes 31 and 32 to the financial statements respectively.

During the year under review, no convertible bonds were converted into shares of the Company.

### Liquidity, Financial Resources and Capital Structure

As at 30 June 2007, the debt to equity ratio of the Group decreased to 35% compared with 45% at 30 June 2006. The current ratio was 23 times compared with 20 times at 30 June 2006.

During the financial year under review, the Group financed its business operation and its requirement on working capital mainly by its own funds and funds generated from operations. As a result, cash and cash equivalents of the Group reduced to RMB1,667 million as at 30 June 2007, a decrease of RMB947 million from RMB 2,614 million at 30 June 2006. The exchange rate fluctuations for Renminbi and Hong Kong dollars were not material and no hedging was made by the Group.

As at 30 June 2007, outstanding capital commitments, contracted but not provided for, in respect of the purchases of property, plant and equipment, research and development expenditure as well as premium payments for land leases, amounted to RMB147 million (2006: RMB107 million).

As at 30 June 2006 and 2007, the Group did not have any material contingent liabilities.



## Management Discussion and Analysis *(Continued)*

### Employee Relations

The Group is committed to building a dedicated and competent team to work towards its mission as to continue its growth at high speed. As at 30 June 2007, the Group employed around 18,695 employees (2006: 14,384 employees), of which 17,276 were employees worked on the Group's farmlands (2006: 12,612 farmland employees).

#### Remuneration

The remuneration of employees is determined by reference to their respective positions, duties and responsibilities in the Group. The package includes basic salaries, discretionary bonus and share options. Benefits such as pension, insurance, education, subsidies and training programmes are also provided by the Group. Offering share options to appropriate employees is one of the core components in the remuneration policy to motivate the employees to further contribute to the future growth of the Group.

The Group is committed to developing industrialized agriculture and to improving the level of income for farmers. Stable income is given to farmers worked at the production bases. In addition, training programmes are provided at the production bases to allow farmers to learn using scientific techniques in cultivation to increase their production efficiency.

#### Training

In view of its rapid growth, the Group encounters keen competition for capable manpower in particular those who are cognizance of both agriculture and management. It is always the Group's policy to maintain quality staff through a comprehensive scientific and reasonable induction of manpower, training and selection program.

The Group emphasizes on training for its core management and believes that junior managers will be the Group's momentum to grow. Training for junior management staff is closely monitored by the senior management of the Group to ensure a continuing support in managerial force for the growth of the Group.

#### Communication

The Group recognizes the importance of continuing and enhancing communication with its employees to keep them abreast of their tasks and to implement policies and targets of the Group.

In view of the extended location of the production bases in the PRC, responsible officers hold regular meetings at the respective production bases to examine physically and promptly the cultivation in any sector of the land or the implementation of any specific operation. Directions are given on the spot and corrective measures, if any, can also be provided timely.



# Investor Relations

## 2006-2007 Key Events

### Year 2006

On 19-20 October, Chaoda hosted the largest and highest level cross-straits agricultural trade conference — Exhibition and Seminar on Cross-straits Exchange of Agricultural Industry. Ms. Wu Yi, member of the Politburo Standing Committee of the CPC and Vice Premier of the State Council attended the opening ceremony.



On 20 October, the 4th International Produce Trade Fair in China presented the “Best Selling Award” to Chaoda with trophy and certificate.



On 18 November, Chaoda was invited to attend the 8th Cross-straits Flower Trade Fair & Cooperative Meeting of Agriculture Industry. A number of senior government leaders visited the booth of Chaoda, including Mr. Hui Liangyu, member of the CPC Central Committee and Vice Premier of the State Council, Mr. Zhang Kehui, Vice Chairman of the CPPCC National Committee, Mr. Du Qinglin, Minister of Agriculture, Mr. Lu Zhongong, General Secretary of the Provincial Committee in Fujian Province and Mr. Huang Xiaojing, Governor of Fujian Province.

On 1-4 December, “China Green Food 2006 Shanghai Expo” was held at Shanghai International Agricultural Exhibition Centre. Chaoda was presented the “Best Selling Award”.



On 4 December, Mr. Chen RunEr, Standing Committee member of the Provincial Committee of Hunan Province and General Secretary of the Municipal Committee of Changsha, visited the production base of Chaoda in Ningxiang.

## Investor Relations *(Continued)*



On 12 December, the opening ceremony of “China Agricultural University — Chaoda Crops Research Institute” was held, materializing the in-depth cooperation in the areas of talent exchange, technology and business between both parties.

On 24-25 December, Ms. Nobuko Okashita, the minister of Cabinet Secretariat of Japan, visited Chaoda group. Ms. Okashita said Chinese enterprises like Chaoda were welcome to explore the market in Japan and to offer healthy produce to the Japanese.



### Year 2007



On 12 March, Mr. Zhao Guoqing, Governor of the Administration of Commodity Inspection in Tianjin, and Mr. Gu Huafeng, Vice-governor, visited Chaoda’s Baodi production base in Tianjin.

In April, Ministry of Agriculture, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce, the People’s Bank of China, State Administration of Taxation, China Securities Regulatory Commission and All China Federation of Supply and Marketing Cooperatives jointly named Chaoda as one of the “State-level Dragon Head Leading Agricultural Enterprise”.



## Investor Relations *(Continued)*



On 20 April, the “Chaoda Love Foundation” was established within the Group to raise funds for staff and farmers in need.

On 23 April, Mr. Tian Xueren, Vice-governor of Jilin Province led the representatives of the provincial government to visit Chaoda.



On 17 May, the Provincial Committee and the provincial government of Fujian Province presented Mr. Kwok Ho, Chairman of Chaoda, the “Award of Outstanding Contribution for the Development of Western District of Cross-straits” and the “Award of Outstanding Contribution for Donation to the Community Service in Fujian Province”.

On 18 May, on the first day of the 9th Cross-straits Fair for Economy and Trade, Mr. Lu Zhangong, General Secretary of the Provincial Committee in Fujian Province, and Mr. Huang Xiaojing, Governor of Fujian Province, accompanied Mr. Zhang Kehui, Vice Chairman of CPPCC National Committee, and Mr. Wang Hanbin, former Vice Chairman of National People’s Congress, to visit the Taiwan Produce Trade Fair organized by Chaoda.



In June, Chaoda once again won the award of “The Best Corporate Image in Fujian Province”.





## Investor Relations *(Continued)*



On 22 June, the World Brand Laboratory announced “2007 China’s 500 Most Valuable Brands”. With a brand value of RMB4.88 billion, Chaoda continued to be the most valuable brand in China’s agricultural industry.

On 29 June, Department of Agriculture, Economic and Trade Commission, Bureau of Quality and Technical Supervision as well as Food and Drug Administration of Fujian Province jointly hosted a large scale community program called “Hand-in-hand to Promote Produce Safety” in Fuzhou. Chaoda issued a proposal “Reassured to Enjoy Agricultural Products for Everyone” during the program, promoting the “credibility of the agriculture industry, food safety and the development of modern agriculture”.



On 6 August, Ms. Huang Lixin, Vice-governor of Jiangsu Province, and others visited the production base of Chaoda.

On 20 September, “Asia’s 500 Most Influential Brands of The Year 2007” was announced. It was the second time for the World Brand Laboratory to evaluate Asian brands. Five hundreds of brands from 13 countries and regions were included in the list. Chaoda was once again among the list and became the only brand named amongst its Asian peers.



## Investor Relations *(Continued)*

### Listing Information

Type of Securities listed and dealt on	Ordinary shares
Name of Stock Exchange	The Stock Exchange of Hong Kong Limited
Stock Code	00682
Listing Date	15 December 2000
Trading Currency	Hong Kong Dollar (“HK\$”)
Board Lot	2,000 shares
Par Value	HK\$0.10
Authorised Shares	5,000,000,000 shares
Issued Shares	2,385,459,150 shares (as at 30 June 2007)
Market Capitalisation	HK\$14,408,173,266 (as at 30 June 2007)
Registrar	Tricor Abacus Ltd.

### Financial Calendar

Closure of Register of Members	26 to 28 November 2007 (both dates inclusive)
2007 Annual General Meeting	28 November 2007
Final Dividend (Proposed)	HK\$0.056 per share, payable on or before 10 December 2007
Bonus Issue of Shares (Proposed)	Issue of 1 new share for every 80 existing shares held by the shareholders whose names appear on the Company’s Register of Members on 28 November 2007



## Investor Relations *(Continued)*

### Investor Information

Corporate Credit Rating	Moody's	Ba2
	Standard & Poor's	BB

### Investor Relations Department

Person in charge	LU Xiao Xun, Jerry (Executive Vice President & Co-CFO)
	LIU Jin (Finance Manager)
E-mail Address	investor@chaoda.com.hk
Consultant	Christensen International (Hong Kong) Limited

### Investor Relations Calendar

Date	Event	Place
20 — 26 July 2006	Macquarie China Corporate Day Roadshow	France, UK, US
23 — 25 October 2006	Credit Suisse China Investment Conference 2006	Beijing, PR China
20 — 24 November 2006	HKEx Investment Seminar in Europe 2006	France, Switzerland, UK
29 — 31 January 2007	UBS Greater China Conference 2007	Shanghai, PR China
27 — 30 March 2007	Credit Suisse Asian Investment Conference 2007	Hong Kong
16 — 27 April 2007	Global Roadshow organized by Daiwa Securities Limited	Japan, Switzerland, UK, US
14 — 16 May 2007	CLSA China Forum 2007	Shanghai, PR China



# Corporate Governance Report

The board of directors (the “Board”) of the Company is committed to maintaining a high standard of corporate governance and has complied with all the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year except for the requirement on the roles of the chairman and chief executive officer to be performed by different individuals and the attendance of the chairman at the last annual general meeting.

In compliance with code provisions B.1.4 and C.3.4 of the CG Code, the Company has posted the terms of reference for the Remuneration Committee and the Audit Committee on the website of the Company.

## Directors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 of the Listing Rules. Subsequent to specific enquiries made by the Company, all directors confirmed that they have complied with the Model Code throughout the year under review.

## Board of Directors

The Board is chaired by Mr. Kwok Ho. There are altogether seven executive directors and four independent non-executive directors.

The independent non-executive directors, representing more than one-third of the Board, and the requirement for professional qualifications under Rule 3.10(2) of the Listing Rules is met. With a wide range of expertise and a balance of skills, each director contributes to the Group. The Company has received annual confirmation of independence from all independent non-executive directors pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors to be independent.

The Board held five meetings during the financial year ended 30 June 2007, the attendance of which was as follows:

Name of Directors	Number of Attendance
<b>Executive directors:</b>	
Kwok Ho ( <i>Chairman</i> )	5/5
Ip Chi Ming	5/5
Lee Yan	5/5
Wong Hip Ying	5/5
Fong Jao	5/5
Chen Jun Hua	5/5
Chan Chi Po, Andy	5/5
<b>Independent non-executive directors:</b>	
Fung Chi Kin	5/5
Tam Ching Ho	4/5
Lin Shun Quan	2/5
Luan Yue Wen	4/5

## Corporate Governance Report *(Continued)*

### Board of Directors *(Continued)*

The Board oversees the management, businesses, strategic decisions and financial performance of the Group. There is a clear division of responsibilities between the Board and the management. Decisions delegated by the Board to the management include implementation of the policy and direction determined by the Board, business operation, preparation of financial statements, compliance with applicable laws and regulations. The Board has established two committees, Audit Committee and Remuneration Committee with specific responsibilities as set out in their respective terms of reference.

Biographical details of the directors are disclosed in the section headed “Profiles of Directors and Senior Executives” of this annual report. To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among the directors.

### Chairman and Chief Executive Officer

Mr. Kwok Ho serves as the Chairman and Chief Executive Officer of the Company, which deviates from the requirement under code provision A.2.1 of the CG Code that the roles of the chairman and chief executive officer should be segregated.

The Board believes that the present structure for vesting the roles of both chairman and chief executive officer in the same person will benefit to the Company and the shareholders as a whole. It provides a strong and consistent leadership for the Group to implement prompt decisions and to formulate efficient strategies. The Board is properly briefed and informed by the Chairman in a timely manner. A clear segregation of the duties and responsibilities at the board level is well-maintained to achieve a balance of power and authority.

### Non-executive Directors

All independent non-executive directors of the Company are appointed for a term of one to two years. Appointment may be terminated by either party serving on the other party a written notice of not less than three months.

### Remuneration Committee

The Remuneration Committee has undertaken to, inter alia, make recommendation to the Board the framework or broad policy and structure for the remuneration of the directors and senior management of the Group with the objective as to ensure that such persons are provided with appropriate incentives to encourage enhanced performance and to reward for individual contributions to the success of the Company.

The Remuneration Committee is served by four members composed of three independent non-executive directors, Mr. Fung Chi Kin, Mr. Tam Ching Ho and Ms. Luan Yue Wen and an executive director, Mr. Chen Jun Hua. Mr. Fung Chi Kin, an independent non-executive director, is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee can be accessible via the Company’s website ([www.irasia.com/listco/hk/chaoda](http://www.irasia.com/listco/hk/chaoda)).

During the year, the Remuneration Committee met once with full attendance. The meeting was held to review and to consider the remuneration policy of the Group. The Remuneration Committee also reviewed the existing compensation arrangements of the Group and made recommendation to the Board. The Remuneration Committee had discussed and made recommendation to the Board on matters in relation to granting share options.



## Corporate Governance Report *(Continued)*

### Nomination of Directors

The Company does not establish a nomination committee and the function of such committee are performed by the Board.

The Company's Articles of Association empowers the Board to appoint any person as a director either to fill causal vacancy or as an addition to the Board. Any director of the Company so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. There was no appointment of new directors to the Board during the year under review.

The Board is responsible for formulating the nomination policies, making recommendations to the shareholders on the directors standing for re-election, providing sufficient biographical details of the directors to enable shareholders of the Company to make an informed decision on the re-election of the directors. At the forthcoming 2007 Annual General Meeting, four existing members, Mr. Ip Chi Ming, Dr. Lee Yan, Ms. Wong Hip Ying and Ms. Luan Yue Wen, will retire from the office as directors and being eligible, offer themselves for re-election.

### Auditors' Remuneration

The fee paid or payable to the external auditors of the Group for the year ended 30 June 2007 amounted to RMB3,768,000.

### Audit Committee

The Audit Committee is responsible for, inter alia, monitoring the integrity of the financial statements of the Company, reviewing the effectiveness of the Company's financial controls, internal controls and risk management systems, reviewing and monitoring the external auditors' independence and objectivity.

The Audit Committee consists of three independent non-executive directors, Mr. Tam Ching Ho, Mr. Fung Chi Kin and Ms. Luan Yue Wen. The committee members possess appropriate professional qualifications accounting or related financial management expertise as required under the Listing Rules.

During the year, three meetings were held by the Audit Committee with full attendance by its members. The Audit Committee has performed, amongst other things, the following work:

1. discussed and reviewed financial reporting matters, including the interim and annual consolidated financial statements and reports of the Group before submitting to the Board for approval;
2. assessed the adequacy and effectiveness of the Group's financial and internal control systems;
3. reviewed and assessed the annual audit plan and the effectiveness of the audit process; and
4. made recommendation to the Board on the change of the auditors in order to oversee their independency and objectivity.

The Board completed its review on the terms of reference of the Audit Committee in line with the provisions in the CG Code and the same were included on the Company's website at [www.irasia.com/listco/hk/chaoda](http://www.irasia.com/listco/hk/chaoda).



## Corporate Governance Report *(Continued)*

### Responsibilities for the Financial Statements

The Board has presented a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors are responsible for overseeing the preparation of the financial statements for the financial year ended 30 June 2007, to reflect truly and fairly the affairs of the Company and of the Group and of the Group's results for the year then ended.

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the Independent Auditors' Report.

### Internal Controls

The Board is ultimately responsible for maintaining a sound and effective internal control system for the Group. During the year under review, the Board has conducted a review of the effectiveness of the Group's internal control system covering its financial, operational, compliance control and risk management functions of the internal controls. Procedures have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records to provide reliable financial information used internally and for publication, for ensuring compliance with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material errors, losses or fraud.

The internal audit department was established to provide independent assurance to the Board and management on the adequacy and effectiveness of internal controls for the Group. The department adopts a risk and control based audit approach. Internal audit reports are communicated to the Audit Committee and the Board.

To further strengthen the internal control, the Board has appointed CCIF CPA Limited, one of the Company's former joint auditors, as an internal control consultant, together with the internal audit department of the Company, to conduct reviews on the internal control system of the Group.

### Shareholders' Rights

According to the Articles of Association of the Company, any two or more member(s) of the Company or any one member of the Company which is a recognized clearing house (or its nominee(s)) may request for an extraordinary general meeting to be convened upon depositing at the principal office of the Company in Hong Kong written requisition specifying the objects of the meeting and signed by the requisitionist(s), provided that as at the date of deposit of the requisition such requisitionist(s) held not less than one-tenth of the paid-up capital of the Company which carries the right of voting at a general meeting of the Company.

The rights of shareholders and the procedures for demanding a poll on resolutions at annual and extraordinary general meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll are also included in all circulars to shareholders and will be explained adequately during the proceedings of meetings. The share registrar will be appointed as scrutineer to ensure that votes cast are properly counted and recorded.



## Corporate Governance Report *(Continued)*

### Communication with Shareholders

The Company communicates with its shareholders through various channels, including annual general meetings, extraordinary general meetings (if any), annual and interim reports, notices and circulars sent to shareholders, announcements, press release and other corporate communications available at the Company's website [www.irasia.com/listco/hk/chaoda](http://www.irasia.com/listco/hk/chaoda).

Due to other business engagement, Mr. Kwok, the Chairman, could not attend last annual general meeting of the Company held on 28 November 2006 as required under code provision E.1.2 of CG Code. Other executive directors, the Chairman of the Audit Committee and of the Remuneration Committee were present at the meeting and answered questions of the shareholders.

Shareholders are encouraged to attend the Annual General Meeting of the Company for which at least 21 days' notice is given. At the meeting, the directors are available to answer questions on the business of the Company.

### Investor Relations

The Company continues to enhance relationships and communication with its investors. In addition to information about the Company's performance and activities provided in the annual and interim reports, through regular meetings, investment forums, global roadshows, conference calls and site visits to the production bases in the PRC, institutional investors and analysts are kept abreast of the Company's development.

To promote effective communication, financial and other information relating to the Company and its business are disclosed on the Company's website at [www.irasia.com/listco/hk/chaoda](http://www.irasia.com/listco/hk/chaoda). The shareholders and investors are also welcome to share their views and suggestions by contacting the investor relations team through the following method:

By telephone : (852) 2845 0168  
By fax : (852) 2827 0278  
By email : [investor@chaoda.com.hk](mailto:investor@chaoda.com.hk)





# Profiles of Directors and Senior Executives

## Executive Directors

**Mr. KWOK Ho**, aged 52, holds an Honorary Doctor of Business Administration. He is the Chairman of the Board, the Chief Executive Officer and the founder of the Group. Mr. Kwok is the director of some of the subsidiaries of the Company. He has also acted as the legal representative in some of the subsidiaries. Mr. Kwok is primarily responsible for the formulation and deployment of the overall strategy of the Group. He has over 25 years of experience in commercial trading in the PRC, particularly in the areas of strategic planning, management, business development, product strategy, sales and marketing. Mr. Kwok was appointed as a member of the 9th Fujian Provincial Political Consultative Committee in 2003. He was also elected as the first President of the Fujian Agricultural Industrialization Association in 2003.

**Mr. IP Chi Ming**, aged 46, is an Executive Director of the Group and the General Manager of Chaoda Vegetable & Fruits Limited. Mr. Ip is primarily responsible for the management and promotion matters of the Group as well as the establishment of close relationship with media and investors. He joined the Group in January 1997 and has over 20 years of experience in trading and marketing in the food products industry. Mr. Ip is the directors of some of the subsidiaries of the Company. He is also the non-executive vice chairman of Asian Citrus Holdings Limited, which is an associated company of the Company and was listed on the Alternative Investment Market of the London Stock Exchange in August 2005.

**Dr. LEE Yan**, aged 43, is an Executive Director of the Group. Dr. Lee is primarily responsible for the Group's research and innovation technology management. He received his doctorate degree in Plant Nutrition and Horticulture at Fujian Agricultural University and was appointed professor of the Faculty of Horticulture at the University. Dr. Lee has extensive experience in agricultural farming, particularly in the areas of planting and cultivation methods, as well as pest and disease management. He joined the Group in January 1997.

**Ms. WONG Hip Ying**, aged 59, is an Executive Director of the Group. Ms. Wong is primarily responsible for the Group's finance management function. She graduated from Xiamen Economic College. Ms. Wong joined the Group in January 1997 and has over 15 years of extensive experience in the accounting field in the PRC. Ms. Wong was appointed an Executive Director of the Group on 1 September 2003.

**Mr. FONG Jao**, aged 36, is an Executive Director of the Group. Mr. Fong is primarily responsible for planning of production base construction, international and domestic trading development and business development of the Group. He graduated from the Faculty of Horticulture (specialized in vegetables) in Nanjing Agricultural University in July 1992 with a bachelor degree in agriculture. Mr. Fong joined the Group in 1996 and has 14 years' extensive experience in agricultural industry. Mr. Fong was appointed an Executive Director of the Group on 1 September 2003.

**Mr. CHEN Jun Hua**, aged 40, is an Executive Director and the Vice President of General Affairs of the Group. He is mainly responsible for assisting the Chief Executive Officer in integrated administrative management in respect of the business and operations of the Group located in China. Mr. Chen graduated from the China Agricultural University with a bachelor degree in agriculture in 1989. Mr. Chen joined the Group in October 2002. Mr. Chen has over 17 years of experience in agricultural development and administrative management. Mr. Chen was appointed an Executive Director of the Group on 17 August 2005.



## Profiles of Directors and Senior Executives *(Continued)*

### Executive Directors *(Continued)*

**Mr. CHAN Chi Po, Andy**, aged 41, is an Executive Director and the Chief Financial Officer of the Group. He is also a director of two subsidiaries of the Company. Mr. Chan is primarily responsible for financial management, financial information analysis and accounting of the Group. Mr. Chan graduated from The University of Sheffield in the United Kingdom with honours degree in accounting, financial management and economics. Mr. Chan is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in 2003, Mr. Chan served as senior corporate auditor responsible for the Asia Pacific Region of a blue chip company listed on the New York Stock Exchange for about 3 years. Mr. Chan has also held office in an international accounting firm and The Stock Exchange of Hong Kong Limited for a total of about 8 years before joining the Group. Mr. Chan was appointed an Executive Director and the Chief Financial Officer of the Group on 17 August 2005.

### Independent Non-executive Directors

**Mr. FUNG Chi Kin**, aged 58, is an Independent Non-executive Director of the Company. Currently, Mr. Fung is the Permanent Honorary President of The Chinese Gold & Silver Exchange Society, the International Advisor of Shanghai Gold Exchange and Director of Fung Chi Kin Consulting Limited. He is also acting as an independent non-executive director of two other listed companies in Hong Kong, namely New Times Group Holdings Limited and Emperor Capital Group Limited. Mr. Fung has over 30 years of experience in banking and finance business. Prior to his retirement, he was the Director and Deputy General Manager of Po Sang Bank Limited (merged into Bank of China (Hong Kong) Limited in 2001), Managing Director of BOCI Securities Limited and Chief Administration Officer of BOC International Holdings Limited. From October 1998 to June 2000, Mr. Fung served as the Council Member of First Legislative Council of the HKSAR. He also held important office in various public organizations, namely the Vice Chairman of The Stock Exchange of Hong Kong Limited, Director of the Hong Kong Futures Exchange Limited, Director of Hong Kong Securities Clearing Company Limited and Hong Kong Affairs Advisor. Mr. Fung was appointed an Independent Non-executive Director of the Company on 1 September 2003.

**Mr. TAM Ching Ho**, aged 36, is an Independent Non-executive Director of the Company. Mr. Tam is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also a certified public accountant in Hong Kong and holds a senior executive position in a company listed on the main board of Singapore Exchange Limited. He is also an independent non-executive director of China Zenith Chemical Group Limited, a publicly-listed company in Hong Kong. Mr. Tam has over 14 years' experience in finance, accounting and auditing. Mr. Tam was appointed an Independent Non-executive Director of the Company on 1 September 2003.

**Professor LIN Shun Quan**, aged 52, is an Independent Non-executive Director of the Company. Professor Lin received his doctorate degree in Agriculture from Fujian Agricultural University and had been on a two-year sabbatical with Saga University, Japan from 1996 to 1998. He was appointed as professor at Huanan Agricultural University and has extensive experience in the agricultural industry in the PRC. Professor Lin was appointed an Independent Non-executive Director of the Company on 17 November 2000.

**Ms. LUAN Yue Wen**, aged 47, is an Independent Non-executive Director of the Company. Ms. Luan holds a professional diploma in Computer Science, a professional diploma in Economic Law, a professional diploma in Financial Accounting, a Master Degree in Business Administration and a Master Degree in Building Construction and Real Estate Project Management. Ms. Luan has over 19 years of experience in the financial accounting and auditing field. Ms. Luan is a member of the Chinese Institute of Certified Public Accountants and also a member of the Chinese Institute of Valuers. Ms. Luan was appointed an Independent Non-executive Director of the Company on 20 September 2004.



## Profiles of Directors and Senior Executives *(Continued)*

### Senior Executives

**Mr. LU Xiao Xun, Jerry**, aged 38, is the Executive Vice President and Co-Chief Financial Officer of the Group. Mr. Lu is primarily responsible for the corporate strategies formulation, financial management, capital market planning and investor relations. He graduated from Tulane University with a Ph.D. in economics. He has over 8 years of experience in international capital market and corporate management. He is a Chartered Financial Analyst and has worked at CLSA and Credit Suisse First Boston as an equity analyst. He joined the Group in September 2005.

**Ms. Yeung Pik Chun, Colana**, aged 50, is the Legal Counsel and the Company Secretary of the Group. Ms. Yeung is a barrister and has, since 2000, practised in Hong Kong. Ms. Yeung obtained her master of law degree from the University of Hong Kong. She is a member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Prior to her legal practice, Ms. Yeung held senior company secretarial and management positions in various corporate organizations for over 15 years. Ms. Yeung has been appointed as the Legal Counsel and Company Secretary of the Company on 29 December 2006.

**Mr. WANG Zhi Qun**, aged 52, is the Vice President of the Group. Mr. Wang is primarily responsible for the management of administration and logistics of the Group. Mr. Wang graduated from San Ming Teachers School, and received trainings from local and overseas senior manager. Mr. Wang was a senior corporate executive prior to joining the Group in February 2000, and has over 23 years' extensive experience in integrated corporate management.

**Mr. YANG Jin Fa**, aged 32, is the Vice President of the Group and the General Affairs Vice President of the Group's strategic planning department. Mr. Yang is primarily responsible for the strategic planning, promotion of corporate planning and media marketing of the Group. He also assists in the management of production and product sales of the Group. Mr. Yang graduated from Fujian Agricultural University (specialized in economics and management). He joined the Group in 1999. He has extensive experience in public relations, media management and marketing, and policy planning.

**Mr. David Alfred SEALEY III**, aged 44, is the Deputy Chief Operation Officer. Mr. Sealey is primarily responsible for the Group's business development in the international trade markets. Mr. Sealey graduated from University of Kentucky in the USA with a bachelor degree in marketing. Prior to joining the Group, Mr. Sealey worked in various companies in the USA, Japan, etc., responsible for corporate operation, product planning and quality control and marketing. He has extensive experience in corporate operation and management. Mr. Sealey joined the Group in August 2004.

**Mr. CHEN Qing Zhong**, aged 39, is the Vice President and the Head of human resources department of the Group. Mr. Chen is primarily responsible for the human resources management and building corporate culture in the Group. Mr. Chen completed a bachelor degree in engineering management with Hohai University in 1989. In 2001, he graduated from La Trobe University in Australia with a master degree in business administration (MBA). He worked as human resources manager and personnel administration controller in large state-owned enterprises and multinational enterprises. He has extensive experience in human resources and administration management. Mr. Chen joined the Group in January 2006.



## Profiles of Directors and Senior Executives *(Continued)*

### Senior Executives *(Continued)*

**Mr. SHI Neng Pu**, aged 69, is the Senior Analyst for agricultural farming techniques of the Group. Mr. Shi is primarily responsible for the expertise team management, professional advice, planning and research of the Group. He graduated from Fujian Agricultural University and has over 45 years of experience in agricultural farming. Mr. Shi's research on agricultural farming had received a number of awards at both national and provincial levels. He received the Outstanding Specialist Award in 1997 and also the Star of Invention and Creation Award from the China Division of TIPS of the United Nations in 1995. Mr. Shi joined the Group in January 1999.

**Mr. WANG Jin**, aged 31, is the assistant to the CEO of the Group. Mr. Wang is primarily responsible for e-commerce, network security and information management of the Group. Mr. Wang graduated from Anhui Agricultural University with a bachelor degree in agriculture. He joined the Group in 1999. He has extensive experience in agricultural micro-organisms, network platform infrastructure, information administrative management and logistics.

**Mr. GONG Wen Bing**, aged 37, is the assistant to the CEO of the Group. Mr. Gong is primarily responsible for the strategic planning of the Group's products, marketing, establishing logistics systems and product sales management. He graduated from the Faculty of Horticulture (specialized in vegetables) in Nanjing Agricultural University in July 1992 with a bachelor degree in agriculture. Mr. Gong joined the Group in January 2002 and has over 13 years' extensive experience in agricultural industry. He possesses professional technology knowledge in the agricultural industry.

**Mr. HE Can De**, aged 44, is the assistant to the CEO of the Group. Mr. He is responsible for assisting the CEO in production, planning and management of the Group's investment projects. Mr. He graduated from Fujian Zhang Zhou Health and Hygiene School. He joined the Group in 2000. He has extensive experience in the management of production base, construction and planning of investment projects, product development and sales.

**Mr. WANG Jing Hai**, aged 56, is the Head of the enterprise's internal audit function. Mr. Wang is responsible for the enterprise internal audit and internal control of the Group. Mr. Wang graduated from Shanghai East China Normal University with a bachelor degree in accounting and economics. Prior to joining the Group in 2000, he has worked in a large state-owned enterprise in Shanghai and a wholly US-owned enterprise, responsible for enterprise management, internal control and audit. He has over 31 years' of experience in the enterprise management and internal audit.

**Mr. WANG Long Wang**, aged 42, is the Head of production base of the Group and Deputy Head of the technology research centre. Mr. Wang is primarily responsible for the management and technology research and development, demonstration and promotion work of the production base. Mr. Wang graduated from the College of Horticulture, Nanjing Agricultural University with a degree in agriculture in 1985. Prior to joining the Group in 2000, he has worked in Vegetables Office of Fujian Province, Fuzhou Institute of Vegetable Science, responsible for management, research and development of vegetable production. He was also sent to Thailand, Jamaica and other countries for further studies and work, and has over 21 years' of experience in the agricultural industry.



# Directors' Report

The directors have pleasure in presenting to shareholders their report together with the audited financial statements for the year ended 30 June 2007.

## Principal Activities

The principal activity of the Company is investment holding, and through its subsidiaries, producing and selling agricultural products. An analysis of the Group's turnover for the year ended 30 June 2007 is set out in note 5 to the financial statements.

## Principal Subsidiaries

A list of principal subsidiaries together with their places of incorporation, principal activities and places of operation, particulars of their issued/registered and paid up capital is set out in note 39 to the financial statements.

## Financial Results

The profit of the Group for the year ended 30 June 2007 and the state of affairs of the Company and of the Group at that date are set out on pages 40 to 99.

## Five Year Financial Summary

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 100.

## Dividend

The directors have recommended the payment of a final dividend of HK\$0.056 per share for the year ended 30 June 2007 (2006: HK\$0.114 per share) to the shareholders subject to the approval by the shareholders at the forthcoming annual general meeting to be held on 28 November 2007 ("Annual General Meeting").

The proposed final dividend, if approved, will be paid on or before 10 December 2007 to shareholders whose names appear on the Register of Members on 28 November 2007.

No interim dividend was declared for the six months ended 31 December 2006 (Six months ended 31 December 2005: Nil).

## Proposed Bonus Issue

The directors have proposed a bonus issue to the shareholders of the Company whose names appear on the Register of Members on 28 November 2007 on the basis of one bonus share for every eighty existing shares of the Company subject to the approval by the shareholders at the Annual General Meeting. The bonus shares will be credited as fully paid and will rank pari passu in all respects with the existing issued shares with effect from the date of issue except for the final dividend recommended for the year ended 30 June 2007.



## Directors' Report *(Continued)*

### Reserves

The reserves available for distribution to shareholders as at 30 June 2007 amounted to RMB1,267,712,000 (2006: RMB1,719,922,000). Movements in reserves during the financial year are set out in note 35 to the financial statements.

### Property, Plant and Equipment

Movements in property, plant and equipment during the financial year are set out in note 16 to the financial statements.

### Share Capital

Movements in the Company's share capital are set out in note 33 to the financial statements.

### Pre-Emptive Rights

No pre-emptive rights exist under the laws of the Cayman Islands, the jurisdiction in which the Company is incorporated.

### Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the financial year.

### Directors

The directors of the Company as at the date of this report are listed on page 2. Their biographical details are set out on pages 24 to 25 of this annual report and details of their remuneration of the Company are set out in note 14 to the financial statements.

The Company received confirmation of independence from all independent non-executive directors pursuant to Rule 3.13 of the Listing Rules. The Company considers all of them to be independent.

In accordance with Article 116A of the Company's Articles of Association, Mr. Ip Chi Ming, Dr. Lee Yan, Ms. Wong Hip Ying and Ms. Luan Yue Wen will retire from office at least once for every three years at the Annual General Meeting and, being eligible, offer themselves for re-election.

No directors proposed for re-election at the Annual General Meeting have an unexpired service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## Directors' Report *(Continued)*

### Directors' and Chief Executives' Interests in Securities

As at 30 June 2007, 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 or otherwise as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

#### Long positions in shares of the Company

Name of director	Personal interests	Number of shares held		Total	Approximate percentage of issued share capital recorded in the register
		Family interests	Corporate interests		
Mr. Kwok Ho	—	—	609,748,000 <i>(Note)</i>	609,748,000	25.56%
Mr. Chan Chi Po, Andy	351,500	—	—	351,500	0.01%

*Note:* Held through Kailey Investment Ltd. which is wholly-owned by Mr. Kwok Ho.

#### 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 outstanding share options as at 30 June 2007
Mr. Kwok Ho	28/01/2003	1.58	01/07/2003 — 27/01/2013	21,000,000
			01/01/2004 — 27/01/2013	21,000,000
			01/01/2005 — 27/01/2013	21,000,000
Mr. Ip Chi Ming	17/08/2005	3.09	17/08/2007 — 16/08/2015	600,000
			17/08/2008 — 16/08/2015	600,000
			17/08/2009 — 16/08/2015	600,000



## Directors' Report *(Continued)*

### Directors' and Chief Executives' Interests in Securities *(Continued)*

Name of director	Date of grant	Exercise price HK\$	Exercisable period	Number of outstanding share options as at 30 June 2007
Dr. Lee Yan	28/01/2003	1.58	01/07/2003 — 27/01/2013	2,100,000
	24/06/2003	1.09	01/07/2003 — 23/06/2013	1,075,000
	04/11/2005	2.965	04/11/2005 — 03/11/2015	400,000
			04/11/2006 — 03/11/2015	400,000
			04/11/2007 — 03/11/2015	400,000
			04/11/2008 — 03/11/2015	400,000
04/11/2009 — 03/11/2015	400,000			
Ms. Wong Hip Ying	28/01/2003	1.58	01/07/2003 — 27/01/2013	575,000
	19/06/2003	1.08	01/07/2003 — 18/06/2013	100,000
	04/11/2005	2.965	04/11/2005 — 03/11/2015	400,000
			04/11/2006 — 03/11/2015	400,000
			04/11/2007 — 03/11/2015	400,000
			04/11/2008 — 03/11/2015	400,000
04/11/2009 — 03/11/2015	400,000			
Mr. Fong Jao	28/01/2003	1.58	01/07/2003 — 27/01/2013	1,600,000
	19/06/2003	1.08	01/07/2003 — 18/06/2013	1,600,000
	04/11/2005	2.965	04/11/2006 — 03/11/2015	200,000
			04/11/2007 — 03/11/2015	400,000
			04/11/2008 — 03/11/2015	400,000
			04/11/2009 — 03/11/2015	400,000
Mr. Chen Jun Hua	19/06/2003	1.08	01/07/2003 — 18/06/2013	39,900
	28/05/2004	2.40	01/01/2005 — 27/05/2014	1,000,000
	17/08/2005	3.09	17/08/2006 — 16/08/2015	600,000
			17/08/2007 — 16/08/2015	600,000
			17/08/2008 — 16/08/2015	600,000
17/08/2009 — 16/08/2015	600,000			
Mr. Chan Chi Po, Andy	17/08/2005	3.09	17/08/2007 — 16/08/2015	600,000
			17/08/2008 — 16/08/2015	600,000
			17/08/2009 — 16/08/2015	600,000

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 (within the meaning of Part XV of the SFO) which are recorded in the register required to be kept by the Company under Section 352 of the SFO or which are notified to the Company and the Stock Exchange pursuant to the Model Code.



## Directors' Report *(Continued)*

### Directors' and Chief Executives' Interests in Securities *(Continued)*

Other than as stated above and those disclosed under the details of the movements of the outstanding share options granted under the Share Option Scheme for the year ended 30 June 2007 as set out in note 34(a) to the financial statements, at no time during the year 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.

### Substantial Shareholders' interests in Securities

As at 30 June 2007, according to the register maintained by the Company under Section 336 of the SFO, the following parties (other than the directors and chief executives of the Company) were directly or indirectly, beneficially interested in 5% or more of the issued share capital and underlying shares of the Company:

Name	Capacity	Number of shares held <i>(Note 1)</i>	Percentage of issued share capital recorded in the register
Kailey Investment Ltd. <i>(Note 2)</i>	Beneficial owner	609,748,000 (L)	25.56%
Janus Capital Management LLC	Investment manager	220,108,000 (L)	9.24%
UBS AG <i>(Notes 3 to 5)</i>	Investment manager	194,722,730 (L) 156,244,043 (S)	8.18% 6.56%
State Street Corporation <i>(Note 6)</i>	Controlled corporation	237,064,290 (P)	9.99%

*Notes:*

- The letter "L" denotes a party's long position in such securities while the letter "S" denotes a party's short position in such securities and the letter "P" denotes a party's lending pool interest.
- Kailey Investment Ltd. is a company incorporated in the British Virgin Islands with limited liability which is legally, beneficially and wholly owned by Mr. Kwok Ho.
- UBS AG was the beneficial owner of 176,290,655 (L) and 141,045,808 (S) shares and had a security interest in 450,260 (S) shares.



## Directors' Report *(Continued)*

### Substantial Shareholders' interests in Securities *(Continued)*

Notes: *(Continued)*

4. UBS AG was deemed to have the following interests held through its wholly-owned subsidiaries set out below:

Name	Number of shares held
UBS Securities LLC	14,747,975 (L) 14,747,975 (S)
UBS Fund Services (Luxembourg) SA	3,417,000 (L)
UBS Global Asset Management Life Limited	267,100 (L)

5. UBS AG derived part of its interest in shares from equity derivatives: 40,304,081 (L) and 41,090,036 (S) for listed derivatives, where as 47,846,892 (L) and 47,846,890 (S) for unlisted derivatives.
6. 237,064,290 shares were under a lending pool held by State Street Bank & Trust Company, a wholly-owned subsidiary of State Street Corporation.

### Sufficiency of Public Float

Based on the information available to the Company and within the knowledge of the directors, the Company maintained sufficient public float as required under the Listing Rules throughout the financial year.

### Directors' and Controlling Shareholders' Interests in Contracts

Apart from the information disclosed under the heading "Connected Transactions" below, there was no other contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted at the end of the year or at any time during the year, and in which a director had, whether directly or indirectly, a material interest, nor there was any other contract of significance in relation to the Company's business between the Company or any of the Company's subsidiaries and a controlling shareholder or any of its subsidiaries.

### Directors' Interests in Competing Business

During the year ended 30 June 2007, none of the directors of the Company is interested in any business which competes or is likely to compete, either directly or indirectly, with the Company's business.

### Connected Transactions

Details of the significant related party transactions undertaken in the ordinary course of business are provided under note 38 to the financial statements. The transactions stated below constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## Directors' Report *(Continued)*

### Connected Transactions *(Continued)*

On 16 June 2006, Fuzhou Chaoda Modern Agriculture Development Company Limited ("Fuzhou Chaoda"), a wholly-owned subsidiary of the Company, entered into an organic fertilizers agreement ("Fertilizers Agreement") with Fujian Chaoda Agriculture Produce Trading Company Limited ("Fujian Chaoda Trading") whereby Fujian Chaoda Trading would supply organic fertilizers to Fuzhou Chaoda for a fixed term of three years commencing 2 August 2006 being the date when the transactions were approved by independent shareholders of the Company (the "Transactions").

The price of the supply is to be agreed between the parties at the time when a purchase order is placed and it shall not exceed the average ex-factory price (net of delivery costs) at which the same type of organic fertilizers were sold by Fujian Chaoda Trading to independent third parties during the calendar month preceding the date on which the purchase order is placed by Fuzhou Chaoda.

Fujian Chaoda Trading is a 95% owned subsidiary of Fujian Chaoda Group Limited 95% of which is owned by Mr. Kwok, the Chairman and controlling shareholder of the Company. The purpose of the Transactions is to obtain a stable and reliable supply of quality organic fertilizers for the Group.

During the financial year under review, the annual total purchase of the organic fertilizers made by the Group amounted to RMB376,336,000 (2006: RMB300,168,000) which was within the applicable annual cap of RMB443,000,000 as approved by the shareholders of the Company.

### Annual Review of the Transactions under the Listing Rules

Subject to Rule 14A.37 of the Listing Rules, the independent non-executive directors of the Company have reviewed the Transactions and confirmed that they have been entered into:

- (a) in the ordinary and usual course of business of the Group,
- (b) on normal commercial terms or on the terms no less favourable than terms available to or from independent third parties, and
- (c) in accordance with the relevant agreement governing the Transactions and on terms that are fair and reasonable so far as shareholders of the Company as a whole.

The auditors of the Company had reviewed the Transactions and provided the letter to the Board in accordance with Rule 14A.38 of the Listing Rules and confirmed, inter alia, that the Transactions have been entered into in accordance with the relevant agreements governing the Transactions and the Transactions have not exceeded the annual cap disclosed in the previous announcement.



## Directors' Report *(Continued)*

### Remuneration Policy

The Remuneration Committee is responsible to, within the terms of policy adopted by the Board and in consultation with the Chairman and/or Chief Executive Officer as appropriate, determine remuneration packages of executive directors and members of senior management. In determining such packages and arrangements, due regard will be given to factors including salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group. Remuneration provided to executive directors consists of basic salaries, discretionary bonus and share options.

The Remuneration Committee shall make recommendations to the Board in respect of non-executive directors whose remuneration is determined by the Board from time to time by referring to their duties and responsibilities with the Company and the market rate.

No director or manager shall be involved in any decisions as to their own remuneration. The remuneration of a non-executive director who is a member of the Remuneration Committee shall be a matter for other members of the Remuneration Committee.

In view of the fact that the Group does not have any long-term incentive schemes, offering appropriate members share options of the Company is one of the core components in the remuneration policy as to retain quality management and employees.

### Share Option Scheme

On 19 June 2002, the Company adopted a share option scheme (the "Scheme") and its principal terms are summarized as below.

#### Purpose

The purpose of the Scheme is to enable the Board to provide incentive or reward to selected participants for their contribution to, and continuing efforts to promote the interests of the Company.

#### Participants

A Category A Participant refers any director (whether executive or non-executive, including any independent non-executive director), or employee (whether full time or part time) of, or any individual for the time being seconded to work for, any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder.

A Category B Participant refers to any holder of any securities issued by any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder.

A Category C Participant refers to (i) any business or joint venture partner, contractor or agent of, (ii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional services to, (iii) any supplier, producer or licensor of any goods or services to, (iv) any customer, licensee or distributor of any goods or services of, or (v) any landlord or tenant of, any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder.

The participants shall include any company controlled by one or more persons belonging to any of the above categories of participants.

## Directors' Report *(Continued)*

### Share Option Scheme *(Continued)*

#### Maximum Entitlement

Without the approval of the shareholders of the Company in general meeting, the Board shall not grant options to a participant which would cause the aggregate number of shares already issued and to be issued upon exercise of options in any 12-month period up to the date of grant exceeding 1% of the shares in issue. In the event of a substantial shareholder of the Company or an independent non-executive director or any of their respective associates, any such grant is limited to 0.1% of the shares in issue and an aggregate value of HK\$5 million basing on the closing price of the shares at the date of grant.

#### Basis of determining exercise price

The option price is determined by the directors provided always that it shall be at least the higher of (i) the closing price of the shares on the offer date, (ii) the average closing price of the shares for the five business days immediately preceding the offer date, and (iii) the nominal amount for the time being of each share.

#### Remaining life of the Scheme

The Scheme will expire on 18 June 2012.

#### Other terms

The share options can be exercised during a period commencing on or after the date of the grant and expiring on such date as the Board may determine in granting the share options but in any event not exceeding ten years from the date of grant. There is no general requirement that a share option must be held for any minimum period before it can be exercised. A consideration of HK\$1 is payable upon accepting the offer of the grant. To exercise a share option, the participant has to, inter alia, tender the payment of the subscription price representing an amount equal to the option price multiplied by the relevant number of shares exercised under the option in full.

#### Number of shares available for issue

A Scheme mandate representing 10% of the then issued share capital of the Company was approved at the time when the Scheme was adopted ("the Scheme Mandate"). The Scheme Mandate was refreshed pursuant to a resolution of the shareholders of the Company passed on 14 February 2006.

Details of the movements of the outstanding share options granted under the Scheme for the financial year ended 30 June 2007 and other information in relation to the share options are set out in note 34 to the financial statements.

Share options granted are recognized as expenses of the Company in accordance with the accounting policy as set out in note 3.15 to the financial statements. The determination of the fair value of the share options is also set out in notes 4(v) and 34 to the financial statements.



## Directors' Report *(Continued)*

### Retirement Benefits

Particulars of the Group's retirement benefits are set out in notes 3.15(i) and 9(b) to the financial statements.

### Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### Major Suppliers and Customers

The percentage of purchase and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchase	
— the largest supplier	39%
— five largest suppliers combined	52%
Sales	
— the largest customer	3%
— five largest customers combined	13%

Mr. Kwok Ho holds 95% of the equity interest in Fujian Chaoda Group Limited, a limited company incorporated in the PRC, which holds a 95% equity interest in the Group's largest supplier.

Save as disclosed above, none of the Directors of the Company or their respective associates or any shareholder (which to the knowledge of the Directors, own more than 5% of the Company's share capital) had an interest in any of the major customers noted above.

### Corporate Governance

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 19 to 23 of this annual report.



## Directors' Report *(Continued)*

### Post Balance Sheet Events

There is no significant event subsequent to the balance sheet date as at 30 June 2007.

### Auditors

Baker Tilly Hong Kong Limited (appointed on 13 June 2005) and CCIF CPA Limited both resigned as the joint auditors of the Company on 21 June 2007. Messrs. Grant Thornton was appointed as the auditors of the Company on 25 June 2007 to fill the causal vacancy.

The financial statements were audited by Messrs. Grant Thornton who will retire at the conclusion of the Annual General Meeting and being eligible, offer themselves for re-appointment. A resolution for reappointing Messrs. Grant Thornton as auditors of the Company until the conclusion of next annual general meeting is to be proposed at the Annual General Meeting.

On behalf of the Board

**Kwok Ho**  
*Chairman*

Hong Kong, 16 October 2007



# Independent Auditors' Report

Certified Public Accountants  
Member of Grant Thornton International

Grant Thornton   
均富會計師行

**To the members of Chaoda Modern Agriculture (Holdings) Limited**  
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Chaoda Modern Agriculture (Holdings) Limited (the "Company") set out on pages 40 to 99, which comprise the consolidated and company balance sheets as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Grant Thornton**  
Certified Public Accountants  
13th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

16 October 2007



# Consolidated Income Statement

For the year ended 30 June 2007

	Notes	2007 RMB'000	2006 RMB'000
<b>Turnover</b>	5	<b>3,849,930</b>	2,797,707
Cost of sales		(1,213,379)	(904,146)
<b>Gross profit</b>		<b>2,636,551</b>	1,893,561
Other revenues	6	<b>83,192</b>	116,645
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	19	<b>148,859</b>	153,059
Selling and distribution expenses		(401,321)	(293,615)
General and administrative expenses		(247,157)	(153,228)
Research expenses		(71,800)	(64,350)
Other operating expenses	8	(140,276)	(160,810)
<b>Profit from operations</b>		<b>2,008,048</b>	1,491,262
Finance costs	9(a)	(145,214)	(193,626)
Share of net profit of associates	24	<b>118,977</b>	103,313
Change in fair value of convertible bonds	32	(247,014)	(5,135)
Gain/(Loss) on deemed disposal of interests in associates	24	<b>490</b>	(37,530)
<b>Profit before income tax</b>	9	<b>1,735,287</b>	1,358,284
Income tax expense	10	(468)	(344)
<b>Profit for the year</b>		<b>1,734,819</b>	1,357,940
<b>Attributable to:</b>			
Equity shareholders of the Company	11	<b>1,732,724</b>	1,358,235
Minority interests		<b>2,095</b>	(295)
<b>Profit for the year</b>		<b>1,734,819</b>	1,357,940
<b>Dividends</b>	13	<b>129,664</b>	268,834
<b>Earnings per share for profit attributable to equity shareholders of the Company during the year</b>			
— Basic	12(a)	<b>RMB0.73</b>	RMB0.57
— Diluted	12(b)	<b>RMB0.71</b>	RMB0.56

# Consolidated Balance Sheet

As at 30 June 2007

	Notes	2007 RMB'000	2006 RMB'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	3,073,328	2,243,719
Construction-in-progress	17	446,593	770,971
Prepaid premium for land leases	18	3,380,418	2,653,230
Biological assets	19	1,099,727	431,706
Available-for-sale investments	20	549,990	—
Deferred development costs	21	37,350	70,288
Deferred expenditure	22	187,376	138,817
Other long-term deposits		3,500	3,500
Interests in associates	24	702,228	593,797
		<b>9,480,510</b>	<b>6,906,028</b>
<b>Current assets</b>			
Prepaid premium for land leases	18	121,452	90,603
Biological assets	19	663,221	452,587
Inventories	25	16,565	26,637
Trade receivables	26	266,489	96,613
Other receivables, deposits and prepayments		435,325	241,783
Cash and cash equivalents	27	1,667,350	2,613,723
		<b>3,170,402</b>	<b>3,521,946</b>
<b>Current liabilities</b>			
Amounts due to a related company	28	21,102	37,389
Trade and bills payables	29	15,266	10,845
Other payables and accruals		101,490	117,080
Bank loans — secured	30	—	10,000
		<b>137,858</b>	<b>175,314</b>
<b>Net current assets</b>		<b>3,032,544</b>	<b>3,346,632</b>
<b>Total assets less current liabilities</b>		<b>12,513,054</b>	<b>10,252,660</b>
<b>Non-current liabilities</b>			
Guaranteed senior notes	31	1,693,423	1,794,501
Convertible bonds	32	1,548,120	1,389,455
		<b>3,241,543</b>	<b>3,183,956</b>
<b>Net assets</b>		<b>9,271,511</b>	<b>7,068,704</b>

## Consolidated Balance Sheet *(Continued)*

As at 30 June 2007

	<i>Notes</i>	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
<b>EQUITY</b>			
<b>Equity attributable to the equity shareholders of the Company</b>			
Share capital	33	252,951	251,071
Reserves	35	9,011,962	6,813,130
		<b>9,264,913</b>	7,064,201
<b>Minority interests</b>		<b>6,598</b>	4,503
<b>Total equity</b>		<b>9,271,511</b>	7,068,704

**Kwok Ho**  
*Director*

**Ip Chi Ming**  
*Director*

# Balance Sheet

As at 30 June 2007

	Notes	2007 RMB'000	2006 RMB'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	91	129
Deferred expenditure	22	18,179	26,776
Interests in subsidiaries	23	4,531,815	4,155,180
		<b>4,550,085</b>	4,182,085
<b>Current assets</b>			
Other receivables, deposits and prepayments		853	3,311
Cash and cash equivalents	27	316,690	1,077,327
		<b>317,543</b>	1,080,638
<b>Current liabilities</b>			
Other payables and accruals		55,754	63,245
		<b>261,789</b>	1,017,393
<b>Net current assets</b>		<b>4,811,874</b>	5,199,478
<b>Total assets less current liabilities</b>			
<b>Non-current liabilities</b>			
Guaranteed senior notes	31	1,693,423	1,794,501
Convertible bonds	32	1,548,120	1,389,455
		<b>3,241,543</b>	3,183,956
<b>Net assets</b>		<b>1,570,331</b>	2,015,522
<b>EQUITY</b>			
Share capital	33	252,951	251,071
Reserves	35	1,317,380	1,764,451
<b>Total equity</b>		<b>1,570,331</b>	2,015,522

**Kwok Ho**  
Director

**Ip Chi Ming**  
Director

# Consolidated Cash Flow Statement

For the year ended 30 June 2007

	2007 RMB'000	2006 RMB'000
<b>Cash flows from operating activities</b>		
Profit before income tax	1,735,287	1,358,284
Adjustments for:		
Finance costs	145,214	193,626
Share of net profit of associates	(118,977)	(103,313)
(Gain)/Loss on deemed disposal of interests in associates	(490)	37,530
Interest income	(55,885)	(53,237)
Depreciation	205,081	150,904
Amortisation of prepaid premium for land leases	71,943	45,984
Loss on disposal of property, plant and equipment	4,950	32,307
Amortisation of deferred development costs	15,188	13,850
Amortisation of deferred expenditure	36,437	18,257
Gain on sales of other investments	—	(3,132)
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	(148,859)	(153,059)
Change in fair value of convertible bonds	247,014	5,135
Employee share option benefits	126,555	28,711
Bad debts written off	928	6,808
Write off of deferred development costs	29,150	14,570
Operating profit before working capital changes	2,293,536	1,593,225
Increase in inventories, trade receivables, other receivables, deposits and prepayments	(385,877)	(7,607)
(Decrease)/Increase in trade and bills payables, other payables and accruals	(7,452)	34,170
(Decrease)/Increase in amounts due to a related company	(16,287)	21,039
(Increase)/Decrease in amount due from an associate	(4)	13,156
Decrease in other long-term deposits	—	3,500
Increase in biological assets	(710,958)	(148,255)
Cash generated from operations	1,172,958	1,509,228
Interest received	55,885	53,237
Finance costs paid	(134,397)	(182,499)
Dividends paid	(268,834)	(262,364)
PRC income tax paid	(468)	(344)
<i>Net cash generated from operating activities</i>	<b>825,144</b>	<b>1,117,258</b>

## Consolidated Cash Flow Statement *(Continued)*

For the year ended 30 June 2007

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(29,006)	(130,951)
Proceeds from disposals of property, plant and equipment	3,216	64,417
Proceeds from disposals of projects giving rise to deferred expenditure	—	931
Proceeds from sales of other investments	—	70,520
Payment of construction-in-progress	(705,462)	(828,155)
Payment of deferred development costs	(11,400)	(24,450)
Payment of prepaid premium for land leases	(863,750)	(932,184)
Payment for available-for-sale investments	(116,400)	—
Refund of prepaid premium for land leases	63,206	58,429
Payment of deferred expenditure	(94,842)	(88,305)
Increase in investment in an associate	(4,000)	(30)
Dividend received from an associate	15,040	—
<i>Net cash used in investing activities</i>	<b>(1,743,398)</b>	<b>(1,809,778)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of new shares	46,813	8,854
Issue of convertible bonds	—	1,384,320
Proceeds from new bank loans	36,950	131,290
Repayments of bank loans	(46,950)	(138,180)
Bank deposits released from banking facilities	—	499,648
<i>Net cash generated from financing activities</i>	<b>36,813</b>	<b>1,885,932</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(881,441)</b>	<b>1,193,412</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>2,613,723</b>	<b>1,449,323</b>
<b>Effect of foreign exchange rate changes</b>	<b>(64,932)</b>	<b>(29,012)</b>
<b>Cash and cash equivalents at end of the year</b>	<b>1,667,350</b>	<b>2,613,723</b>

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2007

	Attributable to the equity shareholders of the Company											
	Share capital	Share premium	Employee share-based		Capital	Exchange reserve	Investment	Statutory reserves	Retained	Total	Minority interests	Total
			Capital	compensation	redemption		revaluation		profits			
			reserve	reserve	reserve		reserve		reserves			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 July 2005	250,665	1,945,730	94,894	74,661	723	—	—	288,349	3,253,987	5,909,009	4,798	5,913,807
Net income recognised directly in equity												
— Currency translation differences	—	—	—	—	—	21,756	—	—	—	21,756	—	21,756
Profit for the year	—	—	—	—	—	—	—	—	1,358,235	1,358,235	(295)	1,357,940
Total recognised income and expenses for the year	—	—	—	—	—	21,756	—	—	1,358,235	1,379,991	(295)	1,379,696
Shares issued under share option scheme	406	13,064	—	(4,616)	—	—	—	—	—	8,854	—	8,854
Employee share option benefits	—	—	—	28,711	—	—	—	—	—	28,711	—	28,711
2004/2005 final dividends paid	—	—	—	—	—	—	—	—	(262,364)	(262,364)	—	(262,364)
Appropriations	—	—	—	—	—	—	—	146,549	(146,549)	—	—	—
At 30 June 2006	251,071	1,958,794	94,894	98,756	723	21,756	—	434,898	4,203,309	7,064,201	4,503	7,068,704
At 1 July 2006	251,071	1,958,794	94,894	98,756	723	21,756	—	434,898	4,203,309	7,064,201	4,503	7,068,704
Net income recognised directly in equity												
— Currency translation differences	—	—	—	—	—	129,864	—	—	—	129,864	—	129,864
Profit for the year	—	—	—	—	—	—	—	—	1,732,724	1,732,724	2,095	1,734,819
Total recognised income and expenses for the year	—	—	—	—	—	129,864	—	—	1,732,724	1,862,588	2,095	1,864,683
Shares issued under share option scheme	1,880	69,791	—	(24,858)	—	—	—	—	—	46,813	—	46,813
Employee share option benefits	—	—	—	126,555	—	—	—	—	—	126,555	—	126,555
Fair value gain on available-for-sale investments	—	—	—	—	—	—	433,590	—	—	433,590	—	433,590
2005/2006 final dividends paid	—	—	—	—	—	—	—	—	(268,834)	(268,834)	—	(268,834)
Appropriations	—	—	—	—	—	—	—	208,686	(208,686)	—	—	—
At 30 June 2007	252,951	2,028,585	94,894	200,453	723	151,620	433,590	643,584	5,458,513	9,264,913	6,598	9,271,511

# Notes to the Financial Statements

For the year ended 30 June 2007

## 1. General Information

Chaoda Modern Agriculture (Holdings) Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands and its registered office is P.O. Box 309, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies. Its principal place of business is Room 2705, 27th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 15 December 2000.

The Company is an investment holding company. The principal activities and other particulars of the principal subsidiaries are set out in note 39 to the financial statements. The Company and its subsidiaries are referred to as the “Group” hereafter.

These financial statements are presented in thousands of units of Renminbi (RMB’000), unless otherwise stated.

The financial statements on pages 40 to 99 have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collectively includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.

The financial statements for the year ended 30 June 2007 were approved for issue by the board of directors on 16 October 2007.

## 2. Adoption of New or Amended HKFRSs

From 1 July 2006, the Group has adopted all the new or amended HKFRSs which are first effective on 1 July 2006 and relevant to the Group. The adoption of these new or amended HKFRSs has resulted in changes in the Group’s accounting policies on financial guarantee contracts. Other than that, the adoption of these new or amended HKFRSs did not result in significant changes in the Group’s accounting policies, but may result in additional disclosures.

### 2.1 Amendments to HKAS 39 Financial Instruments: Recognition and Measurement — Financial Guarantee Contracts

The amendments to HKAS 39 require an entity to account for certain financial guarantee contracts in accordance with that standard. To comply with the requirements of the amended HKAS 39, the Group has adopted a new accounting policy to recognise financial guarantee contracts. On initial recognition, these contracts are measured at fair value and they are subsequently stated at the higher of:

- the amount initially recognised less where appropriate, cumulative amortisation recognised in accordance with the Group’s revenue recognition policies; and
- the amount of the obligation under the contract, as determined in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”.

Details of this new accounting policy are set out in note 3.21.

The adoption of this new accounting policy has had no material impact on the amounts reported in the current and prior accounting periods.



## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 2. Adoption of New or Amended HKFRSs *(Continued)*

#### 2.2 New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company (the "Directors") are currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>2</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>3</sup>
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions <sup>4</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>5</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>6</sup>
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>5</sup>

Notes:

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2007
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2009
- <sup>3</sup> Effective for annual periods beginning on or after 1 November 2006
- <sup>4</sup> Effective for annual periods beginning on or after 1 March 2007
- <sup>5</sup> Effective for annual periods beginning on or after 1 January 2008
- <sup>6</sup> Effective for annual periods beginning on or after 1 July 2008

### 3. Summary of Significant Accounting Policies

#### 3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for certain assets and financial instruments which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 3. Summary of Significant Accounting Policies *(Continued)*

#### 3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

#### 3.3 Subsidiaries

A subsidiary is an entity over which the Company has the power to control, directly or indirectly, the financial and operation policies so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interest in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

#### 3.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither classified by the Group as subsidiaries, investment in a joint venture nor equity investment in accordance with HKAS 39. In the consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 3. Summary of Significant Accounting Policies *(Continued)*

#### 3.4 Associates *(Continued)*

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (*see note 3.9*) of the associate and its carrying amount.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition after reassessment, is recognised immediately in income statement in the determination of the Group's share of the associate's profit or loss in which the investment is acquired.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

#### 3.5 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. The cost of asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 3. Summary of Significant Accounting Policies *(Continued)*

#### 3.5 Property, plant and equipment *(Continued)*

Depreciation on the following property, plant and equipment is calculated using the straight-line method to allocate their costs less their residual values over their estimated useful lives, as follows:

Leasehold improvements	2 to 10 years or over the lease term whichever is the shorter
Buildings	33 to 50 years or over the lease term whichever is the shorter
Furniture, fixture and equipment	5 to 20 years
Motor vehicles	5 years
Farmland infrastructure	5 to 20 years
Computer equipment	5 years

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

#### 3.6 Construction-in-progress

Construction-in-progress represents property, plant and equipment under construction, which is stated at cost less accumulated impairment losses. Cost comprises all direct and indirect cost of construction. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and are available for the intended use. When the assets concerned are brought into use, the costs are transferred to the appropriate category of property, plant and equipment and depreciated in accordance with the policies stated in note 3.5 above.

#### 3.7 Leases

##### (i) *Prepaid premium for land leases*

Prepaid premium for land leases include long-term prepaid rentals under operating leases and land use rights. They are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight-line basis over the period of the respective leases.

Cost of land use rights represents the up-front payments to acquire the rights to use the land on which various warehouses, office premises and processing factories are situated.

##### (ii) *Operating leases*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement on a straight-line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 3. Summary of Significant Accounting Policies *(Continued)*

#### 3.8 Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised when the Group can demonstrate the technical feasibility of completing the asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Capitalised development costs are stated at cost less accumulated amortisation and accumulated impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred. Amortisation of capitalised development costs is charged to the income statement on a straight-line basis over the assets' estimated useful lives of not more than five years. Both the period and method of amortisation are reviewed annually. Development costs previously recognised as an expense are not recognised as an asset in the subsequent period.

#### 3.9 Impairment of assets

Property, plant and equipment, construction-in-progress, deferred development costs, interests in subsidiaries and associates are subject to impairment testing.

All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### 3.10 Biological assets

Biological assets are living animals and/or plants managed by the Group which is involved in the agricultural activities of the transformation of biological assets for sale, into agricultural produce, or into additional biological assets. Biological assets are measured at fair value less estimated point-of-sale costs at initial recognition and at each balance sheet date. The fair value of biological assets is determined based on either the present value of expected net cash flows from the biological assets discounted at a current market-determined pre-tax rate or the market price with reference to the species, growing condition, cost incurred and expected yield of the crops.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 3. Summary of Significant Accounting Policies *(Continued)*

#### 3.10 Biological assets *(Continued)*

The agricultural produce is initially measured at fair value less estimated point-of-sale costs at the time of harvest. The fair value of agricultural produce is measured at the market prices in the local market. The fair value less estimated point-of-sale costs at the time of harvest is deemed as the cost of agricultural produce for further processing.

The gain or loss arising on initial recognition of biological asset at fair value less estimated point-of-sale costs is recognised in the income statement for the period in which it arises.

#### 3.11 Deferred expenditure

Deferred expenditure is stated at cost less accumulated amortisation and accumulated impairment. Amortisation is charged to the income statement on a straight-line basis over the period of three to ten years.

#### 3.12 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### 3.13 Revenue recognition

Revenue comprises the fair value for the sale of goods, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

- (i) Revenue from the sales of crops and livestock are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- (ii) Interest income is recognised on a time-proportion basis using the effective interest method.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 3. Summary of Significant Accounting Policies *(Continued)*

#### 3.14 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"). Most of the companies comprising the Group are operating in a RMB environment and the functional currency of most of the companies comprising the Group is RMB.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the balance sheet date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange reserve in equity.

#### 3.15 Employee benefits

##### *(i) Retirement benefit obligations*

The Group contributes to a defined contribution retirement benefit scheme ("MPF scheme") under the Mandatory Provident Fund Scheme Ordinance which is available to its employees in Hong Kong. The Group and its employees are each required to make contributions to the MPF scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the MPF scheme vest immediately and the assets of the MPF Scheme are held separately from those of the Group in independently administered funds.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 3. Summary of Significant Accounting Policies *(Continued)*

#### 3.15 Employee benefits *(Continued)*

##### *(ii) Share-based employee compensation*

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. The value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is recognised as an expense in income statement with a corresponding credit to employee share-based compensation reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

At the time when the share options are exercised, the amount previously recognised in employee share-based compensation reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in employee share-based compensation reserve will be transferred to retained profits.

#### 3.16 Inventories

The Group's inventories, comprising agricultural materials and merchandise purchased for resale, are carried at the lower of cost and net realisable value.

Costs of agricultural materials and merchandise purchased for resale are stated at their purchase costs calculated on a first-in, first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### 3.17 Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash at banks and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.



## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 3. Summary of Significant Accounting Policies *(Continued)*

#### 3.18 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from the proceeds (net of any related income tax benefits), to the extent they are incremental costs directly attributable to the equity transaction.

#### 3.19 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries and associates are set out below.

##### ***Classification of financial assets***

Financial assets other than hedging instruments are classified into (i) loans and receivables and (ii) available-for-sale financial assets.

##### *(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

##### *(ii) Available-for-sale financial assets*

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value is recognised directly in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recognised in the income statement. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

##### ***Recognition and derecognition of financial assets***

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 3. Summary of Significant Accounting Policies *(Continued)*

#### 3.19 Financial assets *(Continued)*

##### **Recognition and derecognition of financial assets** *(Continued)*

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

##### **Impairment of financial assets**

At each balance sheet date, financial assets are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

##### *(i) Loans and receivables*

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the income statement for the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement for the period in which the reversal occurs.

##### *(ii) Available-for-sale financial assets*

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in the income statement as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity.

##### *(iii) Financial assets carried at cost*

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 3. Summary of Significant Accounting Policies *(Continued)*

#### 3.20 Financial liabilities

The Group's financial liabilities include amounts due to a related company, trade and bills payables, other payables and accruals, bank loans, guaranteed senior notes and convertible bonds.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

#### **(i) Trade and other payables**

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### **(ii) Borrowings**

Borrowings are recognised initially at fair value, net of transaction cost incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of the borrowing. Borrowings are subsequently stated at amortised cost with any differences between the proceeds (net of transaction costs) and the redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

#### **(iii) Convertible bonds at fair value through profit or loss**

Convertible bonds that will or may not be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are accounted as financial liabilities with embedded derivatives. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risk and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 3. Summary of Significant Accounting Policies *(Continued)*

#### 3.20 Financial liabilities *(Continued)*

##### **(iii) Convertible bonds at fair value through profit or loss *(Continued)***

The convertible bonds with embedded derivatives that are not closely related to the host debt contract are designated as a whole as financial liabilities at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, the entire convertible bond is measured at fair value with changes in fair value recognised directly in the income statement in the period in which they arise.

Transaction costs that are directly attributable to the issue of the convertible bond designated as financial liabilities at fair value through profit or loss are recognised immediately in income statement.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; or
- the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- the financial liability contains an embedded derivative that would need to be separately recorded.

#### 3.21 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transactions costs that are directly attributable to the issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 3. Summary of Significant Accounting Policies *(Continued)*

#### 3.22 Related parties

A party is considered to be related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the party (a) controls, is controlled by, or is under common control with, the Group; (b) has an interest in the Group that gives it significant influence over the Group; or (c) has joint control over the Group;
- (ii) the party is an associate;
- (iii) the party is a jointly-controlled entity;
- (iv) the party is a member of the key management personnel of the Group or its parent;
- (v) the party is a close member of the family or any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

#### 3.23 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of income tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 3. Summary of Significant Accounting Policies *(Continued)*

#### 3.23 Accounting for income taxes *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

### 4. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### (i) Depreciation and amortisation

The Group depreciates the property, plant and equipment and amortises the prepaid premium for land leases, capitalised development cost and deferred expenditure in accordance with the accounting policies stated in note 3.5, note 3.7(i), note 3.8 and note 3.11 respectively. The estimated useful lives reflect the Directors' estimates of the periods that the Group intends to derive future economic benefits from the use of these assets.

#### (ii) Impairment of receivables

The Group's management assesses the impairment of receivables on a regular basis. This assessment is based on the credit history of its customers and current market conditions. Management of the Group reassesses the impairment of receivables at the balance sheet date.

#### (iii) Valuation of biological assets

The Group's management determines the fair values less estimated point-of-sale costs of biological assets on initial recognition and at each balance sheet date with reference to the market-determined prices, cultivation area, species, growing conditions, cost incurred and expected yield of the crops and/or the professional valuation.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 4. Critical Accounting Estimates and Judgements *(Continued)*

#### (iv) Capitalisation of development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 3.8. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of assets, discount rates to be applied and the expected period of benefits.

#### (v) Valuation of share options granted

The fair value of share options granted is estimated using the Binomial Option Pricing Model (the "Model") at the date of grant by an independent valuer. The Model required input of subjective assumptions such as the expected stock price volatility and dividend yield. Changes in the subjective input may materially affect the fair value estimates.

### 5. Turnover

The principal activities of the Group are the growing and sales of crops, and breeding and sales of livestock. The supermarket business operated by a subsidiary was ceased during the year ended 30 June 2006.

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

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Sales of crops	3,812,772	2,698,357
Sales of livestock	37,158	40,671
Supermarkets chain operation	—	58,679
	<b>3,849,930</b>	<b>2,797,707</b>

### 6. Other Revenues

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Interest income	55,885	53,237
Investment income	3,229	37,266
Agency fee income	5,174	8,064
Others	18,904	18,078
	<b>83,192</b>	<b>116,645</b>

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 7. Segment Information

The Group is principally engaged in the growing and sales of crops. The turnover, operating profit and total assets, total liabilities and capital expenditures attributable to this business segment accounted for over 90% of the Group's consolidated totals for the years ended 30 June 2007 and 2006. Consequently, no segment information by business activity is presented.

The Group's operations are primarily in the PRC and the Group's sales and total assets attributable to other geographical areas are less than 5% of the Group's corresponding consolidated totals for the years ended 30 June 2007 and 2006. Consequently, no segment information by geographical area is presented.

### 8. Other Operating Expenses

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Expenses incurred for idle farmland	83,538	70,688
Natural crops loss	10,813	8,505
Loss on disposal of property, plant and equipment	4,950	32,307
Compensation paid for land leasing	17,900	25,850
Plantation cost for windbreaks	13,185	13,973
Net exchange loss	2,684	6,123
Others	7,206	3,364
	<b>140,276</b>	<b>160,810</b>

### 9. Profit before Income Tax

Profit before income tax is arrived at after charging/(crediting):

#### (a) Finance costs

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Interest on the guaranteed senior notes issued	133,746	142,428
Issue expenses of convertible bonds	—	38,931
Bank and finance charges	11,121	11,593
Interest on bank loans wholly repayable within five years	347	674
	<b>145,214</b>	<b>193,626</b>



## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 9. Profit before Income Tax *(Continued)*

#### (b) Staff costs (including directors' remuneration — note 14)

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Salaries, wages and other benefits	358,810	265,677
Employee share option benefits	126,555	28,711
Retirement benefits costs	2,737	1,882
	<b>488,102</b>	<b>296,270</b>

#### (c) Other items

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Auditors' remuneration	3,768	4,518
Amortisation of deferred development costs (included in general and administrative expenses)	15,188	13,850
Amortisation of prepaid premium for land leases, net of amount capitalised	71,943	45,984
Amortisation of deferred expenditure, net of amount capitalised	36,437	18,257
Bad debts written off	928	6,808
Cost of inventories sold	1,213,379	904,146
Depreciation of property, plant and equipment, net of amount capitalised	205,081	150,904
Operating lease expenses		
— land and buildings	111,863	79,879
— motor vehicles	102	102

### 10. Income Tax Expense

The amount of income tax expense charged to the consolidated income statement represents:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Current tax		
— PRC income tax <i>(note (i))</i>	468	344
— Hong Kong profits tax <i>(note (ii))</i>	—	—
	<b>468</b>	<b>344</b>

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 10. Income Tax Expense *(Continued)*

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 Ministry of Agriculture, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce, The People's Bank of China, State Administration of Taxation, China Securities Regulatory Commission and All China Federation of 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 are also applied to other PRC subsidiaries engaged in agricultural business.

Other PRC subsidiaries not engaged in agricultural business are subject to the PRC income tax at the rates of 15% to 33%.

- (ii) No provision for Hong Kong profits tax has been made as there is no estimated assessable profits (2006: Nil) for the Company and its subsidiaries operating in Hong Kong during the year.

Reconciliation between the Group's income tax expense and accounting profit at applicable tax rates are as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Profit before income tax	1,735,287	1,358,284
Notional tax on profit before income tax, calculated at the rate applicable to profits in the countries concerned	634,057	488,474
Net tax effect of expense and income that are not deductible and taxable in determining taxable profit and tax allowance	92,169	(53,749)
Tax effect of non-taxable offshore profit	(129)	(1,589)
Tax effect of unrecognised tax losses	3,573	17,903
Tax effect of exemption benefits under State-Level Agricultural Leading Enterprise	(729,202)	(450,695)
Income tax expense	468	344

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 11. Profit Attributable to Equity Shareholders of the Company

Of the consolidated profit attributable to the equity shareholders of the Company of RMB1,732,724,000 (2006: RMB1,358,235,000), a loss of RMB522,001,000 (2006: RMB187,395,000) has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's (loss)/profit for the year:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Loss dealt with in the Company's financial statements included in consolidated profit attributable to equity shareholders	(522,001)	(187,395)
Final dividends from subsidiaries related to the profits of the previous financial year, approved and paid during the year	268,834	262,364
Company's (loss)/ profit for the year ( <i>note 35</i> )	(253,167)	74,969

### 12. Earnings Per Share

#### (a) Basic earnings per share

The calculation of the earnings per share is based on the profit attributable to equity shareholders of RMB1,732,724,000 (2006: RMB1,358,235,000) and the weighted average number of 2,371,992,922 (2006: 2,364,426,579) ordinary shares in issue during the year.

#### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of RMB1,732,724,000 (2006: RMB1,363,370,000) and the weighted average number of 2,445,998,978 (2006: 2,451,461,346) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme and convertible bonds.

#### (i) Profit attributable to equity shareholders of the Company (diluted)

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Profit attributable to equity shareholders	1,732,724	1,358,235
Change in fair value of convertible bonds ( <i>Note</i> )	—	5,135
Profit used for determining diluted earnings per share	1,732,724	1,363,370

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 12. Earnings Per Share *(Continued)*

#### (b) Diluted earnings per share *(Continued)*

##### (ii) Weighted average number of ordinary shares *(diluted)*

	2007 Number of shares	2006 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	2,371,992,922	2,364,426,579
Deemed issue of ordinary shares		
— share options	74,006,056	57,445,726
— convertible bonds <i>(Note)</i>	—	29,589,041
Weighted average number of ordinary shares used in calculating diluted earnings per share	2,445,998,978	2,451,461,346

*Note:* In the calculation of the diluted earnings per share attributable to the equity shareholders of the Company for the year ended 30 June 2007, the potential ordinary shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the equity shareholders of the Company and was not taken into account as they had an anti-dilutive effect.

### 13. Dividends

	2007 RMB'000	2006 RMB'000
Proposed final dividend of HK\$0.056 (2006: HK\$0.114) per ordinary share	129,664	268,834

At a meeting held on 16 October 2007, the Directors proposed a final dividend of HK\$0.056 (equivalent to RMB0.054) per ordinary share and recommended a bonus issue to the shareholders of the Company on the basis of one bonus share for every eighty existing shares of the Company recorded on the Register of Members of the Company on 28 November 2007. The proposed final dividend and the issue of bonus shares are subject to approval of the equity shareholders in the forthcoming annual general meeting and have not yet been accounted for in the current year's financial statements but will be reflected in the financial statements for the year ending 30 June 2008.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 14. Directors' Remuneration

Emoluments paid and payable to the Company's Directors for the year ended 30 June 2007 were as follows:

Name of Directors	Fees <i>RMB'000</i>	Basic salaries, allowance and bonus <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Employee share option benefits <i>RMB'000</i>	Total emoluments <i>RMB'000</i>
<b>Executive Directors</b>					
Kwok Ho	—	1,300	12	—	1,312
Ip Chi Ming	—	650	12	1,224	1,886
Chan Chi Po, Andy	—	910	12	1,224	2,146
Chen Jun Hua	—	172	—	1,224	1,396
Wong Hip Ying	—	97	—	914	1,011
Fong Jao	—	97	—	914	1,011
Lee Yan	—	97	—	914	1,011
<b>Independent Non-executive Directors</b>					
Fung Chi Kin	230	—	—	—	230
Tam Ching Ho	230	—	—	—	230
Luan Yue Wen	110	—	—	—	110
Lin Shun Quan	38	—	—	—	38
	<b>608</b>	<b>3,323</b>	<b>36</b>	<b>6,414</b>	<b>10,381</b>

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 14. Directors' Remuneration *(Continued)*

Emoluments paid and payable to the Company's Directors for the year ended 30 June 2006 were as follows:

Name of Directors	Fees <i>RMB'000</i>	Basic salaries, allowance and bonus <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Employee share option benefits <i>RMB'000</i>	Total emoluments <i>RMB'000</i>
<b>Executive Directors</b>					
Kwok Ho	—	1,753	12	—	1,765
Ip Chi Ming	—	1,083	12	2,871	3,966
Chan Chi Po, Andy (Appointed on 17 August 2005)	—	1,326	12	3,218	4,556
Chen Jun Hua (Appointed on 17 August 2005)	—	89	—	2,871	2,960
Wong Hip Ying	—	135	—	1,546	1,681
Fong Jao	—	135	—	1,546	1,681
Lee Yan	—	122	—	1,546	1,668
<b>Independent Non-executive Directors</b>					
Fung Chi Kin	175	—	—	—	175
Tam Ching Ho	175	—	—	—	175
Luan Yue Wen	59	—	—	—	59
Lin Shun Quan	24	—	—	—	24
	433	4,643	36	13,598	18,710

None of the Directors waived or has agreed to waive emoluments in respect of the years ended 30 June 2007 and 2006.

During the years ended 30 June 2007 and 2006, no emoluments were paid or payable by the Group to the Directors as an inducement to join the Group or upon joining the Group or as compensation for loss of office.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 15. Individuals with Highest Emoluments

The five individuals whose emoluments were the highest in the Group for the year include nil (2006: four) Director(s) whose emoluments are reflected in the table presented in note 14 above. The emoluments paid and payable to the remaining five (2006: one) highest paid individual(s) during the year are as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Salaries and other emoluments	1,467	996
Retirement benefit scheme contributions	33	12
Employee share option benefits	77,762	6,489
	<b>79,262</b>	<b>7,497</b>

The emoluments of five (2006: one) individual(s) with the highest emoluments are within the following band:

<b>Emoluments band</b>	2007 <b>No. of individuals</b>	2006 <b>No. of individuals</b>
RMB4,000,000 to RMB4,499,999 (equivalent to approximately HK\$4 million to HK\$4.5 million)	1	—
RMB7,000,000 to RMB7,499,999 (equivalent to approximately HK\$7 million to HK\$7.5 million)	—	1
RMB17,000,000 to RMB17,499,999 (equivalent to approximately HK\$17 million to HK\$17.5 million)	1	—
RMB18,500,000 to RMB18,999,999 (equivalent to approximately HK\$18.5 million to HK\$19 million)	1	—
RMB19,000,000 to RMB19,499,999 (equivalent to approximately HK\$19 million to HK\$19.5 million)	1	—
RMB19,500,000 to RMB19,999,999 (equivalent to approximately HK\$19.5 million to HK\$20 million)	1	—

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2007

### 16. Property, Plant and Equipment

#### The Group

	Leasehold improvements RMB'000	Buildings RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Farmland infrastructure RMB'000	Computer equipment RMB'000	Total RMB'000
<b>Cost</b>							
At 1 July 2005	50,271	120,452	139,740	19,731	1,784,072	22,000	2,136,266
Additions	—	—	6,505	19,609	104,837	—	130,951
Transfer from construction-in-progress (note 17)	1,738	—	3,452	594	517,469	—	523,253
Disposals	(15,298)	—	(11,662)	(705)	(100,425)	—	(128,090)
Currency translation differences	(34)	—	(54)	(24)	—	—	(112)
At 30 June 2006 and 1 July 2006	36,677	120,452	137,981	39,205	2,305,953	22,000	2,662,268
Additions	—	—	3,147	1,476	24,383	—	29,006
Transfer from construction-in-progress (note 17)	—	—	13,257	—	1,016,583	—	1,029,840
Disposals	—	—	(16,252)	(187)	(333)	—	(16,772)
Currency translation differences	(78)	—	(116)	(49)	—	—	(243)
<b>At 30 June 2007</b>	<b>36,599</b>	<b>120,452</b>	<b>138,017</b>	<b>40,445</b>	<b>3,346,586</b>	<b>22,000</b>	<b>3,704,099</b>
<b>Accumulated depreciation</b>							
At 1 July 2005	5,468	6,123	24,886	4,417	215,368	13,200	269,462
Charge for the year	1,968	3,177	22,396	3,348	145,238	4,400	180,527
Disposals	(5,373)	—	(1,444)	(339)	(24,210)	—	(31,366)
Currency translation differences	(29)	—	(33)	(12)	—	—	(74)
At 30 June 2006 and 1 July 2006	2,034	9,300	45,805	7,414	336,396	17,600	418,549
Charge for the year	2,404	3,120	20,549	4,736	185,805	4,400	221,014
Disposals	—	—	(8,158)	(125)	(323)	—	(8,606)
Currency translation differences	(72)	—	(87)	(27)	—	—	(186)
<b>At 30 June 2007</b>	<b>4,366</b>	<b>12,420</b>	<b>58,109</b>	<b>11,998</b>	<b>521,878</b>	<b>22,000</b>	<b>630,771</b>
<b>Net book value</b>							
<b>At 30 June 2007</b>	<b>32,233</b>	<b>108,032</b>	<b>79,908</b>	<b>28,447</b>	<b>2,824,708</b>	<b>—</b>	<b>3,073,328</b>
At 30 June 2006	34,643	111,152	92,176	31,791	1,969,557	4,400	2,243,719

Farmland infrastructure includes films, green house facilities, ditches, roads and others.



## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 16. Property, Plant and Equipment *(Continued)*

#### The Company

	Leasehold improvements <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost</b>			
At 1 July 2005	134	130	264
Additions	—	58	58
Disposals	—	(8)	(8)
Currency translation differences	(4)	(3)	(7)
At 30 June 2006 and 1 July 2006	130	177	307
Additions	—	30	30
Currency translation differences	(8)	(10)	(18)
<b>At 30 June 2007</b>	<b>122</b>	<b>197</b>	<b>319</b>
<b>Accumulated depreciation</b>			
At 1 July 2005	12	98	110
Charge for the year	26	48	74
Disposals	—	(3)	(3)
Currency translation differences	—	(3)	(3)
At 30 June 2006 and 1 July 2006	38	140	178
Charge for the year	25	37	62
Currency translation differences	(3)	(9)	(12)
<b>At 30 June 2007</b>	<b>60</b>	<b>168</b>	<b>228</b>
<b>Net book value</b>			
<b>At 30 June 2007</b>	<b>62</b>	<b>29</b>	<b>91</b>
At 30 June 2006	92	37	129

### 17. Construction-in-Progress

#### The Group

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
At 1 July	770,971	466,069
Additions	705,462	828,155
Transferred to property, plant and equipment ( <i>note 16</i> )	(1,029,840)	(523,253)
At 30 June	446,593	770,971

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 18. Prepaid Premium for Land Leases

#### The Group

	Long-term prepaid rentals <i>RMB'000</i>	Land use rights <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost</b>			
At 1 July 2005	1,936,803	57,150	1,993,953
Additions	888,370	43,814	932,184
Early termination of leases	(61,300)	—	(61,300)
At 30 June 2006 and 1 July 2006	2,763,873	100,964	2,864,837
Additions	863,750	31,092	894,842
Early termination of leases	(64,500)	—	(64,500)
<b>At 30 June 2007</b>	<b>3,563,123</b>	<b>132,056</b>	<b>3,695,179</b>
<b>Accumulated amortisation</b>			
At 1 July 2005	67,303	2,633	69,936
Amortisation for the year	51,536	2,403	53,939
Early termination of leases	(2,871)	—	(2,871)
At 30 June 2006 and 1 July 2006	115,968	5,036	121,004
Amortisation for the year	69,335	4,264	73,599
Early termination of leases	(1,294)	—	(1,294)
<b>At 30 June 2007</b>	<b>184,009</b>	<b>9,300</b>	<b>193,309</b>
<b>Net carrying value</b>			
<b>At 30 June 2007</b>	<b>3,379,114</b>	<b>122,756</b>	<b>3,501,870</b>
At 30 June 2006	2,647,905	95,928	2,743,833

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 18. Prepaid Premium for Land Leases *(Continued)*

#### The Group *(Continued)*

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Non-current portion	3,380,418	2,653,230
Current portion	121,452	90,603
At 30 June	<b>3,501,870</b>	2,743,833

The Group's interest in long-term prepaid rentals and land use rights represent the prepaid operating leases payments and their net book values are analysed as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
In PRC held on:		
Leases of over 50 years	475,358	351,253
Leases of between 10 to 50 years	3,026,512	2,392,580
	<b>3,501,870</b>	2,743,833

As at 30 June 2007, long-term prepaid rentals for the farmland which have not yet been occupied by the Group amounted to RMB917,950,000 (2006: RMB780,500,000).

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 19. Biological Assets

#### The Group

	Fruit trees and tea trees <i>RMB'000</i>	Livestock <i>RMB'000</i>	Vegetables <i>RMB'000</i>	Trees in plantation forest <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 July 2005	261,092	15,974	261,606	5,179	543,851
Additions	138,247	37,546	821,982	19,550	1,017,325
Decrease due to sales	(47,374)	(14,239)	(768,329)	—	(829,942)
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs	21,816	(6,085)	137,328	—	153,059
At 30 June 2006 and 1 July 2006	373,781	33,196	452,587	24,729	884,293
Additions	647,520	45,303	1,151,264	51,439	1,895,526
Decrease due to sales	(59,695)	(19,972)	(1,086,063)	—	(1,165,730)
Gain/(Loss) arising from changes in fair value less estimated point-of-sale costs	33,733	(30,307)	145,433	—	148,859
<b>At 30 June 2007</b>	<b>995,339</b>	<b>28,220</b>	<b>663,221</b>	<b>76,168</b>	<b>1,762,948</b>

Biological assets as at 30 June 2007 and 30 June 2006 are stated at fair values less estimated point-of-sale costs and are analysed as follows:

	Fruit trees and tea trees <i>RMB'000</i>	Livestock <i>RMB'000</i>	Vegetables <i>RMB'000</i>	Trees in plantation forest <i>RMB'000</i>	2007 Total <i>RMB'000</i>	2006 Total <i>RMB'000</i>
Non-current portion	995,339	28,220	—	76,168	1,099,727	431,706
Current portion	—	—	663,221	—	663,221	452,587
	<b>995,339</b>	<b>28,220</b>	<b>663,221</b>	<b>76,168</b>	<b>1,762,948</b>	884,293

- (a) In accordance with the valuation report issued by Sallmanns, an independent professional valuer, the fair value less estimated point-of sale costs of the fruit trees and tea trees is determined with reference to the present value of expected net cash flows from the biological assets discounted at a current market-determined pre-tax rate.
- (b) The fair value of livestock is determined by the Directors with reference to market-determined prices with similar size, species and age.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 19. Biological Assets *(Continued)*

- (c) The fair value 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.
- (d) The trees in plantation forest represented the growing of eucalyptus and were cultivated at initial stage. The Directors considered that the fair value of eucalyptus was largely approximate to the cost incurred after taking into consideration the growing conditions and the period of plantation.
- (e) The valuation methodology is in compliance with HKAS 41 to determine the fair values of biological assets in their present location and condition.
- (f) The quantity and amount of agricultural produce harvested measured at fair value less estimated point-of-sale costs during the year were as follows:

	2007		2006	
	Quantity Tonnes	Amount RMB'000	Quantity Tonnes	Amount RMB'000
Fruit and tea leaves	24,060	78,524	14,965	46,251
Vegetables	1,530,739	2,541,463	1,102,954	1,809,966
	<b>1,554,799</b>	<b>2,619,987</b>	1,117,919	1,856,217

### 20. Available-for-Sale Investments

#### The Group

	2007 RMB'000	2006 RMB'000
Listed equity investments in Hong Kong, at fair value	549,990	—

The fair value of the listed equity investments is based on the quoted market bid prices available on the Stock Exchange. During the year, the fair value gain recognised directly in investment revaluation reserve amounted to RMB433,590,000 (2006: Nil).

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 21. Deferred Development Costs

#### The Group

	2007 RMB'000	2006 RMB'000
<b>Cost</b>		
At 1 July	100,119	99,399
Additions	11,400	24,450
Write off	(41,470)	(23,730)
At 30 June	70,049	100,119
<b>Accumulated amortisation</b>		
At 1 July	29,831	25,141
Amortisation for the year	15,188	13,850
Write off	(12,320)	(9,160)
At 30 June	32,699	29,831
<b>Net carrying value</b>		
At 30 June	37,350	70,288

### 22. Deferred Expenditure

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
<b>Cost</b>				
At 1 July	186,143	114,846	37,361	38,406
Additions	94,842	88,305	—	—
Disposals	—	(15,963)	—	—
Currency translation differences	(2,177)	(1,045)	(2,177)	(1,045)
At 30 June	278,808	186,143	35,184	37,361
<b>Accumulated amortisation</b>				
At 1 July	47,326	35,164	10,585	3,200
Amortisation for the year	44,940	27,281	7,254	7,472
Disposals	—	(15,032)	—	—
Currency translation differences	(834)	(87)	(834)	(87)
At 30 June	91,432	47,326	17,005	10,585
<b>Net carrying value</b>				
At 30 June	187,376	138,817	18,179	26,776

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 23. Interests in Subsidiaries

#### The Company

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Investments in unlisted shares, at cost	200,665	200,665
Amounts due from subsidiaries	4,331,150	3,954,515
	<b>4,531,815</b>	<b>4,155,180</b>

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Directors, the settlement of these amounts due is neither planned nor likely to occur in the foreseeable future and in substance, the amounts due from subsidiaries are extensions of the Company's investments in these subsidiaries.

The Company's interests in certain subsidiaries have been pledged as securities for the Company's issued guaranteed senior notes and convertible bonds as shown in notes 31 and 32.

Particulars of the principal subsidiaries of the Company at 30 June 2007 are set out in note 39.

### 24. Interests in Associates

#### The Group

	<i>Notes</i>	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Share of net assets:			
At 1 July		593,394	527,581
Share of associates' results for the year		118,977	103,313
Capital contribution to an associate			
— 福州超大永輝商業發展有限公司		4,000	—
Increase in equity interest in an associate		—	30
Gain/(Loss) on deemed disposal of interest in associates	(a)	490	(37,530)
Dividend received		(15,040)	—
At 30 June		<b>701,821</b>	<b>593,394</b>
Amounts due from an associate	(b)	407	403
		<b>702,228</b>	<b>593,797</b>

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 24. Interests in Associates *(Continued)*

Notes:

- (a) Particulars of the principal associate of the Group at 30 June 2007 are as follows:

Name of company	Country of incorporation	Principal activity and place of operation	Particulars of issued and paid up capital	Interest held indirectly by the Company
Asian Citrus Holdings Limited ("Asian Citrus") #	Bermuda	Investment holding in Hong Kong	74,084,258 (2006: 62,201,949) ordinary shares of HK\$0.1 each	33% (2006: 39%)

# Listed on the Alternative Investment Market of London Stock Exchange

The Directors are of the opinion that a complete list of the particulars of all associates of the Group will be of excessive length and therefore the above list contains only the particulars of an associate which principally affect the results or financial position of the Group.

During the year, Asian Citrus placed 8,333,333 shares of HK\$0.1 each to various investors and issued 3,400,000 shares of HK\$0.1 each upon conversion of the convertible bonds by the bond holders. Upon the completion of these transactions, the Group's equity interest in Asian Citrus was diluted from 39% as at 30 June 2006 to 33% as at 30 June 2007. The gain on deemed disposal of interest in associates amounted to RMB490,000.

The following table illustrates the summarised consolidated financial information of the Group's principal associate, as extracted from its financial statements:

	2007 RMB'000	2006 RMB'000
Non-current assets	1,785,525	1,502,837
Current assets	422,178	130,044
Non-current liabilities	(47,559)	(73,511)
Current liabilities	(51,661)	(53,721)
Turnover	479,728	404,566
Profit for the year	318,705	257,926

- (b) Amounts due from an associate are unsecured, interest-free and have no fixed terms of repayment.

### 25. Inventories

#### The Group

	2007 RMB'000	2006 RMB'000
Agricultural materials	9,969	19,672
Merchandise for resale	6,596	6,965
	16,565	26,637

Agricultural materials mainly include seeds, fertilisers and pesticides not yet utilised at year end. At 30 June 2007 and 2006, all inventories were stated at cost.



## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 26. Trade Receivables

#### The Group

The Group's trading terms for its local wholesale and retail sales are mainly cash on delivery whereas local sales to institutional customers and export trading companies are mainly on credit. The credit period is generally for a period from one month to three months depending on the customers' credit worthiness.

The ageing of the Group's trade receivables is analysed as follows:

	2007 RMB'000	2006 RMB'000
0 — 1 month	246,463	87,825
1 — 3 months	6,062	3,167
Over 3 months	13,964	5,621
	<b>266,489</b>	<b>96,613</b>

### 27. Cash and Cash Equivalents

#### The Group

	Kept in PRC		Kept in Hong Kong and Japan		Total
	In RMB RMB'000	In foreign currencies RMB'000	In RMB RMB'000	In foreign currencies RMB'000	
Cash at banks and in hand	172,002	4,181	—	11,565	187,748
Short-term bank deposits	941,987	990	—	536,625	1,479,602
	<b>1,113,989</b>	<b>5,171</b>	<b>—</b>	<b>548,190</b>	<b>1,667,350</b>

	Kept in PRC		Kept in Hong Kong and Japan		Total
	In RMB RMB'000	In foreign currencies RMB'000	In RMB RMB'000	In foreign currencies RMB'000	
Cash at banks and in hand	197,762	5,530	—	13,179	216,471
Short-term bank deposits	550,461	—	—	1,846,791	2,397,252
	<b>748,223</b>	<b>5,530</b>	<b>—</b>	<b>1,859,970</b>	<b>2,613,723</b>

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 27. Cash and Cash Equivalents *(Continued)*

#### The Group *(Continued)*

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term bank deposits are placed with the banks and earn interest at the respective short-term bank deposit rates ranging from 1.71% to 5.32% (2006: 1.71% to 5.28%) per annum. The short-term bank deposits as at 30 June 2007 have a maturity within three months (2006: within three months).

The conversion of RMB denominated balances into foreign currencies and the transfer of these balances out of PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

#### The Company

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Cash at banks and in hand	6,818	2,169
Short-term bank deposits	309,872	1,075,158
	<b>316,690</b>	1,077,327

The Company's cash and cash equivalents of RMB316,690,000 (2006: RMB1,077,327,000) were all denominated in foreign currencies and kept in Hong Kong.

Amounts denominated in a currency other than the functional currency of the Group and the Company included in the cash and cash equivalents are mainly as follows:

	The Group		The Company	
	2007 '000	2006 '000	2007 '000	2006 '000
Hong Kong Dollars	HK\$151,690	HK\$780,008	HK\$38,276	HK\$517,794
United States Dollars	US\$53,390	US\$132,601	US\$36,938	US\$67,700

### 28. Amounts Due to a Related Company

The balance arose from purchases of agricultural materials, as detailed in note 38(a), from a company of which Mr. Kwok Ho, the Chairman and the substantial shareholder of the Company, is a major shareholder. The balance was aged within 30 days as of the balance sheet date.

The amounts due are unsecured, interest-free and repayable on demand.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 29. Trade and Bills Payables

#### The Group

The ageing of the Group's trade and bills payables is analysed as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
0 — 1 month	874	7,265
1 — 3 months	11,655	1,378
Over 3 months	2,737	2,202
	<b>15,266</b>	<b>10,845</b>

At 30 June 2007, the Group did not have secured bills payables. At 30 June 2006, bills payables amounting to RMB4,139,000 was secured by a corporate guarantee provided by one of the subsidiaries as detailed in note 30.

### 30. Bank Loans — Secured

#### The Group

At the balance sheet date, the bank loans were repayable as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Within 1 year or on demand	—	10,000

At 30 June 2007, the Group had total banking facilities amounted to RMB40,000,000 and the banking facilities had not been utilised. These banking facilities were secured by a corporate guarantee provided by one of the subsidiaries.

At 30 June 2006, the Group had total banking facilities amounted to RMB65,000,000 in which RMB10,000,000 bank loans had been utilised and RMB4,139,000 of bills payables (note 29) have been utilised. These banking facilities were secured by a corporate guarantee provided by one of the subsidiaries.

### 31. Guaranteed Senior Notes

The Company issued US\$225,000,000, 7.75% guaranteed senior notes due on 8 February 2010 (the "Guaranteed Senior Notes") in February 2005 at an issue price of 98.985% (equivalent to RMB1,840,905,000, net of discount capitalised). The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited and are guaranteed by certain subsidiaries bearing interest at 7.75% per annum, payable semi-annually in arrears. At any time prior to 7 February 2008, the Company may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the cash proceeds of one or more sales of the Company's shares in an offering at a redemption price of 107.75% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date.

The carrying amount of the guaranteed senior notes approximates its fair value.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 32. Convertible Bonds

In May 2006, the Company issued HK\$1,344,000,000 (equivalent to RMB1,384,320,000 at date of issue) zero coupon convertible bonds to the bond holders with a maturity date due on 8 May 2011. The convertible bonds are listed on the Stock Exchange and are guaranteed by certain subsidiaries of the Company.

Each convertible bond would, at the option of the bond holder, be convertible on and after 15 May 2006 up to and including 28 April 2011 into ordinary share (the "Shares") of the Company at an initial conversion price of HK\$6.72 per share subject to adjustment. The conversion price will be reset to the average market price of the Shares on the respective dates as stipulated in the Company's circular dated 3 May 2006. The convertible bonds that are not converted into ordinary shares will be redeemed at 128.01% of its principal amount on the maturity date.

Since the conversion price for the convertible bonds is subject to change, the conversion will not result in settlement by the exchange of a fixed number of equity instrument. Therefore, upon application of HKAS 32 and HKAS 39, the Group determined that the convertible bonds do not contain any equity component and the entire convertible bonds were designated as "financial liabilities at fair value through profit or loss" which require the convertible bonds to be carried at fair value at the balance sheet date with the changes in fair value being recognised in the income statement. During the year, a loss on change in its fair value of RMB247,014,000 (2006: RMB5,135,000) is recognised in the income statement.

The fair value of the convertible bonds was calculated using the market value basis. The inputs into the model were as follows:

Stock price	HK\$6.04
Expected volatility	43%
Stock borrowing cost	9%
Issuer's credit spread	2%
Expected dividend yield	2%

The movement of the fair value of the convertible bonds is set out as below:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
At 1 July/date of issuance	1,389,455	1,384,320
Change in fair value charged to income statement	247,014	5,135
Currency translation differences charged to exchange reserve	(88,349)	—
At 30 June	1,548,120	1,389,455

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 33. Share Capital

	Authorised ordinary shares of HK\$0.1 each		
	No. of shares	HK\$'000	RMB'000
At 30 June 2006 and <b>30 June 2007</b>	5,000,000,000	500,000	527,515
	Issued and fully paid ordinary shares of HK\$0.1 each		
	No. of shares	HK\$'000	RMB'000
At 1 July 2005	2,362,730,250	236,274	250,665
New shares issued under share option scheme ( <i>note 34</i> )	3,932,000	393	406
At 30 June 2006	2,366,662,250	236,667	251,071
New shares issued under share option scheme ( <i>note 34</i> )	18,796,900	1,880	1,880
<b>At 30 June 2007</b>	<b>2,385,459,150</b>	<b>238,547</b>	<b>252,951</b>

### 34. Share Option Scheme

A share option scheme (the "Scheme") was adopted pursuant to a resolution passed at the extraordinary general meeting of the Company held on 19 June 2002 for the primary purpose of providing incentives or rewards to selected participants, and will expire on 18 June 2012. Under the Scheme, the Company may grant options to any participant includes any Director (whether executive or non-executive, including any independent non-executive director) or employee (whether full time or part time) of, or any individual for the time being seconded to work for, any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder (a "Category A Participant"); or any holder of any securities issued by any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder (a "Category B Participant"); or (i) any business or joint venture partner, contractor or agent of; (ii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional services to; (iii) any supplier, producer or licensor of any goods or services to; (iv) any customer, licensee or distributor of any goods or services of; (v) any landlord or tenant of; any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder (a "Category C Participant") and, for the purposes of the Scheme, the participants shall include any company controlled by one or more persons belonging to any of the above classes of participants.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 34. Share Option Scheme *(Continued)*

The total number of shares in respect of which options may be granted under the Scheme must not exceed 10% of the shares of the Company in issue as at the adoption date ("Scheme Mandate"). Pursuant to a resolution passed at the extraordinary general meeting of the Company held on 14 February 2006, a refreshment of the Scheme Mandate was approved. The total number of shares to be allotted and issued pursuant to the grant or exercise of the options under the Scheme shall not exceed 10% of the total number of shares in issue as at 14 February 2006. The total number of shares issued and to be issued upon exercise of the options granted to a Participant in any 12-month period must not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of the individual limit must be subject to shareholders' approval.

Options granted must be taken up within 30 days from the offer date, upon payment of HK\$1.00 per offer. Save as determined by the Directors and provided in the offer of the grant of the relevant option, there is no performance target requirement which must be achieved before any of the options can be exercised and there is no general requirement that an option must be held for any minimum period before it can be exercised. The option price is determined by the Board of Directors in its absolute discretion which, in any event, shall be at least the higher of (a) the closing price of the shares on the offer date; (b) the average closing price of the shares for the five business days immediately preceding the offer date; and (c) the nominal amount for the time being of each share.

The movement in number of share options and weighted average exercise price for the reporting period presented are as follows:

	2007		2006	
	<i>No. of shares</i>	<i>Weighted average exercise price</i>	<i>No. of shares</i>	<i>Weighted average exercise price</i>
At 1 July	115,632,850	1.97	86,904,850	1.59
Granted during the year	120,000,000	4.04	32,760,000	3.03
Exercised during the year <i>(note 33)</i>	(18,796,900)	2.49	(3,932,000)	2.18
Lapsed during the year	—	—	(100,000)	2.40
At 30 June	216,835,950	3.07	115,632,850	1.97

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2007

### 34. Share Option Scheme (Continued)

The fair value of share options is determined at the date of grant under Binomial Option Pricing Model by an independent valuer and the following assumptions were used to calculate the fair value of share options:

Date of grant	Option value	Exercise price	Risk-free interest rate	Expected volatility	Dividend yield	Life of options
28 January 2003	HK\$0.83 — HK\$0.86	HK\$1.580	4.45%	64%	2.6%	10 years
19 June 2003	HK\$0.56 — HK\$0.57	HK\$1.080	3.78%	64%	2.6%	10 years
24 June 2003	HK\$0.56	HK\$1.090	3.74%	64%	2.6%	10 years
28 May 2004	HK\$1.20 — HK\$1.40	HK\$2.400	4.54%	64%	2.6%	10 years
17 August 2005	HK\$1.59 — HK\$1.79	HK\$3.090	4.01%	64%	2.6%	10 years
1 November 2005	HK\$1.55 — HK\$1.68	HK\$2.950	4.46%	64%	2.6%	10 years
4 November 2005	HK\$1.50 — HK\$1.67	HK\$2.965	4.57%	64%	2.6%	10 years
31 August 2006	HK\$2.01 — HK\$2.21	HK\$4.040	4.21%	61%	2.3%	10 years

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The closing price of the Company's shares immediately before 31 August 2006, being the date of grant of the share options granted during the year, was HK\$3.99.

The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised for the year ended 30 June 2007 was HK\$6.03 (2006: HK\$4.37).

Details of the movements of the outstanding share options granted under the Scheme of the Company are as follows:

#### (a) For the year ended 30 June 2007

Name of Category of Participant	Number of share options					At 30 June 2007	Date of grant	Exercisable period	Exercise price per share HK\$	Weighted average closing price HK\$
	At 1 July 2006	Granted during the year	Exercised during the year	Lapsed during the year	Transfer					
<b>Directors:</b>										
Kwok Ho	21,000,000	—	—	—	—	21,000,000	28/01/2003	01/07/2003 — 27/01/2013	1.58	—
	21,000,000	—	—	—	—	21,000,000	28/01/2003	01/01/2004 — 27/01/2013	1.58	—
	21,000,000	—	—	—	—	21,000,000	28/01/2003	01/01/2005 — 27/01/2013	1.58	—
Ip Chi Ming	600,000	—	(600,000)	—	—	—	17/08/2005	17/08/2006 — 16/08/2015	3.09	4.78
	600,000	—	—	—	—	600,000	17/08/2005	17/08/2007 — 16/08/2015	3.09	—
	600,000	—	—	—	—	600,000	17/08/2005	17/08/2008 — 16/08/2015	3.09	—
	600,000	—	—	—	—	600,000	17/08/2005	17/08/2009 — 16/08/2015	3.09	—

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2007

### 34. Share Option Scheme (Continued)

(a) For the year ended 30 June 2007 (Continued)

Name of Category of Participant	Number of share options					At 30 June 2007	Date of grant	Exercisable period	Exercise price per share HK\$	Weighted average closing price HK\$
	At 1 July 2006	Granted during the year	Exercised during the year	Transfer	Lapsed during the year					
<b>Directors: (Continued)</b>										
Lee Yan	2,100,000	—	—	—	—	2,100,000	28/01/2003	01/07/2003 — 27/01/2013	1.58	—
	1,075,000	—	—	—	—	1,075,000	24/06/2003	01/07/2003 — 23/06/2013	1.09	—
	400,000	—	—	—	—	400,000	04/11/2005	04/11/2005 — 03/11/2015	2.965	—
	400,000	—	—	—	—	400,000	04/11/2005	04/11/2006 — 03/11/2015	2.965	—
	400,000	—	—	—	—	400,000	04/11/2005	04/11/2007 — 03/11/2015	2.965	—
	400,000	—	—	—	—	400,000	04/11/2005	04/11/2008 — 03/11/2015	2.965	—
	400,000	—	—	—	—	400,000	04/11/2005	04/11/2009 — 03/11/2015	2.965	—
Wong Hip Ying	575,000	—	—	—	—	575,000	28/01/2003	01/07/2003 — 27/01/2013	1.58	—
	1,100,000	—	(1,000,000)	—	—	100,000	19/06/2003	01/07/2003 — 18/06/2013	1.08	6.65
	400,000	—	—	—	—	400,000	04/11/2005	04/11/2005 — 03/11/2015	2.965	—
	400,000	—	—	—	—	400,000	04/11/2005	04/11/2006 — 03/11/2015	2.965	—
	400,000	—	—	—	—	400,000	04/11/2005	04/11/2007 — 03/11/2015	2.965	—
	400,000	—	—	—	—	400,000	04/11/2005	04/11/2008 — 03/11/2015	2.965	—
	400,000	—	—	—	—	400,000	04/11/2005	04/11/2009 — 03/11/2015	2.965	—
Fong Jao	1,600,000	—	—	—	—	1,600,000	28/01/2003	01/07/2003 — 27/01/2013	1.58	—
	1,600,000	—	—	—	—	1,600,000	19/06/2003	01/07/2003 — 18/06/2013	1.08	—
	400,000	—	(400,000)	—	—	—	04/11/2005	04/11/2005 — 03/11/2015	2.965	6.50
	400,000	—	(200,000)	—	—	200,000	04/11/2005	04/11/2006 — 03/11/2015	2.965	6.50
	400,000	—	—	—	—	400,000	04/11/2005	04/11/2007 — 03/11/2015	2.965	—
	400,000	—	—	—	—	400,000	04/11/2005	04/11/2008 — 03/11/2015	2.965	—
	400,000	—	—	—	—	400,000	04/11/2005	04/11/2009 — 03/11/2015	2.965	—
Chen Jun Hua	39,900	—	—	—	—	39,900	19/06/2003	01/07/2003 — 18/06/2013	1.08	—
	2,000,000	—	(1,000,000)	—	—	1,000,000	28/05/2004	01/01/2005 — 27/05/2014	2.40	6.50
	600,000	—	(600,000)	—	—	—	17/08/2005	17/08/2005 — 16/08/2015	3.09	6.50
	600,000	—	—	—	—	600,000	17/08/2005	17/08/2006 — 16/08/2015	3.09	—
	600,000	—	—	—	—	600,000	17/08/2005	17/08/2007 — 16/08/2015	3.09	—
	600,000	—	—	—	—	600,000	17/08/2005	17/08/2008 — 16/08/2015	3.09	—
	600,000	—	—	—	—	600,000	17/08/2005	17/08/2009 — 16/08/2015	3.09	—
Chan Chi Po	500,000	—	(500,000)	—	—	—	28/05/2004	01/07/2005 — 27/05/2014	2.40	4.56
	500,000	—	(500,000)	—	—	—	28/05/2004	01/07/2006 — 27/05/2014	2.40	4.82
	600,000	—	(600,000)	—	—	—	17/08/2005	17/08/2005 — 16/08/2015	3.09	5.82
	600,000	—	(600,000)	—	—	—	17/08/2005	17/08/2006 — 16/08/2015	3.09	6.64
	600,000	—	—	—	—	600,000	17/08/2005	17/08/2007 — 16/08/2015	3.09	—
	600,000	—	—	—	—	600,000	17/08/2005	17/08/2008 — 16/08/2015	3.09	—
	600,000	—	—	—	—	600,000	17/08/2005	17/08/2009 — 16/08/2015	3.09	—



## Notes to the Financial Statements (Continued)

For the year ended 30 June 2007

## 34. Share Option Scheme (Continued)

## (a) For the year ended 30 June 2007 (Continued)

Name of Category of Participant	Number of share options					At 30 June 2007	Date of grant	Exercisable period	Exercise price per share HK\$	Weighted average closing price HK\$
	At 1 July 2006	Granted during the year	Exercised during the year	Transfer	Lapsed during the year					
<b>Employees:</b>										
In aggregate	4,324,950	—	(2,874,900)	—	—	1,450,050	19/06/2003	01/07/2003 — 18/06/2013	1.08	6.63
	2,100,000	—	(2,100,000)	—	—	—	19/06/2003	01/07/2004 — 18/06/2013	1.08	4.76
	2,830,000	—	(830,000)	—	—	2,000,000	28/05/2004	01/01/2005 — 27/05/2014	2.40	5.97
	550,000	—	(70,000)	—	—	480,000	28/05/2004	01/01/2006 — 27/05/2014	2.40	5.99
	800,000	—	(300,000)	—	—	500,000	28/05/2004	01/01/2007 — 27/05/2014	2.40	5.50
	290,000	—	(90,000)	—	—	200,000	17/08/2005	17/08/2005 — 16/08/2015	3.09	4.70
	400,000	—	(200,000)	—	—	200,000	17/08/2005	17/08/2006 — 16/08/2015	3.09	4.71
	1,400,000	—	(1,400,000)	—	—	—	17/08/2005	01/09/2006 — 16/08/2015	3.09	4.67
	400,000	—	—	—	—	400,000	17/08/2005	17/08/2007 — 16/08/2015	3.09	—
	1,400,000	—	—	—	—	1,400,000	17/08/2005	01/09/2007 — 16/08/2015	3.09	—
	400,000	—	—	—	—	400,000	17/08/2005	17/08/2008 — 16/08/2015	3.09	—
	1,400,000	—	—	—	—	1,400,000	17/08/2005	01/09/2008 — 16/08/2015	3.09	—
	400,000	—	—	—	—	400,000	17/08/2005	17/08/2009 — 16/08/2015	3.09	—
	1,400,000	—	—	—	—	1,400,000	17/08/2005	01/09/2009 — 16/08/2015	3.09	—
	1,400,000	—	—	—	—	1,400,000	17/08/2005	01/09/2010 — 16/08/2015	3.09	—
	1,440,000	—	(1,000,000)	—	—	440,000	01/11/2005	01/11/2005 — 31/10/2015	2.95	6.06
	1,552,000	—	(512,000)	—	—	1,040,000	01/11/2005	01/11/2006 — 31/10/2015	2.95	5.58
	1,552,000	—	—	(200,000)	—	1,352,000	01/11/2005	01/11/2007 — 31/10/2015	2.95	—
	1,552,000	—	—	(200,000)	—	1,352,000	01/11/2005	01/11/2008 — 31/10/2015	2.95	—
	1,552,000	—	—	(200,000)	—	1,352,000	01/11/2005	01/11/2009 — 31/10/2015	2.95	—
	—	23,000,000	(2,690,000)	—	—	20,310,000	31/08/2006	01/04/2007 — 30/08/2016	4.04	7.34
	—	23,000,000	—	—	—	23,000,000	31/08/2006	01/04/2008 — 30/08/2016	4.04	—
	—	23,000,000	—	—	—	23,000,000	31/08/2006	01/04/2009 — 30/08/2016	4.04	—
	—	23,000,000	—	—	—	23,000,000	31/08/2006	01/04/2010 — 30/08/2016	4.04	—
	—	23,000,000	—	—	—	23,000,000	31/08/2006	01/04/2011 — 30/08/2016	4.04	—
<b>Other participants:</b>										
In aggregate	—	—	—	200,000	—	200,000	01/11/2005	01/11/2007 — 31/10/2015	2.95	—
	—	—	—	200,000	—	200,000	01/11/2005	01/11/2008 — 31/10/2015	2.95	—
	—	—	—	200,000	—	200,000	01/11/2005	01/11/2009 — 31/10/2015	2.95	—
	—	1,000,000	(730,000)	—	—	270,000	31/08/2006	01/04/2007 — 30/08/2016	4.04	6.56
	—	1,000,000	—	—	—	1,000,000	31/08/2006	01/04/2008 — 30/08/2016	4.04	—
	—	1,000,000	—	—	—	1,000,000	31/08/2006	01/04/2009 — 30/08/2016	4.04	—
	—	1,000,000	—	—	—	1,000,000	31/08/2006	01/04/2010 — 30/08/2016	4.04	—
	—	1,000,000	—	—	—	1,000,000	31/08/2006	01/04/2011 — 30/08/2016	4.04	—
<b>Total</b>	<b>115,632,850</b>	<b>120,000,000</b>	<b>(18,796,900)</b>	<b>—</b>	<b>—</b>	<b>216,835,950</b>				<b>6.03</b>

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2007

### 34. Share Option Scheme (Continued)

#### (b) For the year ended 30 June 2006

Name of Category of Participant	Number of share options					At 30 June 2006	Date of grant	Exercisable period	Exercise price per share HK\$	Weighted average closing price HK\$
	At 1 July 2005	Granted during the year	Exercised during the year	Transfer	Lapsed during the year					
<b>Directors:</b>										
Kwok Ho	21,000,000	—	—	—	—	21,000,000	28/01/2003	01/07/2003 — 27/01/2013	1.58	—
	21,000,000	—	—	—	—	21,000,000	28/01/2003	01/01/2004 — 27/01/2013	1.58	—
	21,000,000	—	—	—	—	21,000,000	28/01/2003	01/01/2005 — 27/01/2013	1.58	—
Ip Chi Ming	—	600,000	(600,000)	—	—	—	17/08/2005	17/08/2005 — 16/08/2015	3.09	4.85
	—	600,000	—	—	—	600,000	17/08/2005	17/08/2006 — 16/08/2015	3.09	—
	—	600,000	—	—	—	600,000	17/08/2005	17/08/2007 — 16/08/2015	3.09	—
	—	600,000	—	—	—	600,000	17/08/2005	17/08/2008 — 16/08/2015	3.09	—
	—	600,000	—	—	—	600,000	17/08/2005	17/08/2009 — 16/08/2015	3.09	—
Lee Yan	2,100,000	—	—	—	—	2,100,000	28/01/2003	01/07/2003 — 27/01/2013	1.58	—
	1,075,000	—	—	—	—	1,075,000	24/06/2003	01/07/2003 — 23/06/2013	1.09	—
	—	400,000	—	—	—	400,000	04/11/2005	04/11/2005 — 03/11/2015	2.965	—
	—	400,000	—	—	—	400,000	04/11/2005	04/11/2006 — 03/11/2015	2.965	—
	—	400,000	—	—	—	400,000	04/11/2005	04/11/2007 — 03/11/2015	2.965	—
	—	400,000	—	—	—	400,000	04/11/2005	04/11/2008 — 03/11/2015	2.965	—
	—	400,000	—	—	—	400,000	04/11/2005	04/11/2009 — 03/11/2015	2.965	—
Wong Hip Ying	575,000	—	—	—	—	575,000	28/01/2003	01/07/2003 — 27/01/2013	1.58	—
	1,100,000	—	—	—	—	1,100,000	19/06/2003	01/07/2003 — 18/06/2013	1.08	—
	—	400,000	—	—	—	400,000	04/11/2005	04/11/2005 — 03/11/2015	2.965	—
	—	400,000	—	—	—	400,000	04/11/2005	04/11/2006 — 03/11/2015	2.965	—
	—	400,000	—	—	—	400,000	04/11/2005	04/11/2007 — 03/11/2015	2.965	—
	—	400,000	—	—	—	400,000	04/11/2005	04/11/2008 — 03/11/2015	2.965	—
	—	400,000	—	—	—	400,000	04/11/2005	04/11/2009 — 03/11/2015	2.965	—
Fong Jao	1,600,000	—	—	—	—	1,600,000	28/01/2003	01/07/2003 — 27/01/2013	1.58	—
	1,600,000	—	—	—	—	1,600,000	19/06/2003	01/07/2003 — 18/06/2013	1.08	—
	—	400,000	—	—	—	400,000	04/11/2005	04/11/2005 — 03/11/2015	2.965	—
	—	400,000	—	—	—	400,000	04/11/2005	04/11/2006 — 03/11/2015	2.965	—
	—	400,000	—	—	—	400,000	04/11/2005	04/11/2007 — 03/11/2015	2.965	—
	—	400,000	—	—	—	400,000	04/11/2005	04/11/2008 — 03/11/2015	2.965	—
	—	400,000	—	—	—	400,000	04/11/2005	04/11/2009 — 03/11/2015	2.965	—
Chen Jun Hua (Note)	39,900	—	—	—	—	39,900	19/06/2003	01/07/2003 — 18/06/2013	1.08	—
	2,000,000	—	—	—	—	2,000,000	28/05/2004	01/01/2005 — 27/05/2014	2.40	—
	—	600,000	—	—	—	600,000	17/08/2005	17/08/2005 — 16/08/2015	3.09	—
	—	600,000	—	—	—	600,000	17/08/2005	17/08/2006 — 16/08/2015	3.09	—
	—	600,000	—	—	—	600,000	17/08/2005	17/08/2007 — 16/08/2015	3.09	—
	—	600,000	—	—	—	600,000	17/08/2005	17/08/2008 — 16/08/2015	3.09	—
	—	600,000	—	—	—	600,000	17/08/2005	17/08/2009 — 16/08/2015	3.09	—
Chan Chi Po (Note)	850,000	—	(850,000)	—	—	—	19/06/2003	01/07/2004 — 18/06/2013	1.08	4.765
	500,000	—	—	—	—	500,000	28/05/2004	01/07/2005 — 27/05/2014	2.40	—
	500,000	—	—	—	—	500,000	28/05/2004	01/07/2006 — 27/05/2014	2.40	—
	—	600,000	—	—	—	600,000	17/08/2005	17/08/2005 — 16/08/2015	3.09	—
	—	600,000	—	—	—	600,000	17/08/2005	17/08/2006 — 16/08/2015	3.09	—
	—	600,000	—	—	—	600,000	17/08/2005	17/08/2007 — 16/08/2015	3.09	—
	—	600,000	—	—	—	600,000	17/08/2005	17/08/2008 — 16/08/2015	3.09	—
	—	600,000	—	—	—	600,000	17/08/2005	17/08/2009 — 16/08/2015	3.09	—

## Notes to the Financial Statements (Continued)

For the year ended 30 June 2007

### 34. Share Option Scheme (Continued)

#### (b) For the year ended 30 June 2006 (Continued)

Name of Category of Participant	Number of share options					At 30 June 2006	Date of grant	Exercisable period	Exercise price per share HK\$	Weighted average closing price HK\$
	At 1 July 2005	Granted during the year	Exercised during the year	Transfer	Lapsed during the year					
<b>Employees:</b>										
In aggregate	4,324,950	—	—	—	—	4,324,950	19/06/2003	01/07/2003 — 18/06/2013	1.08	—
	2,850,000	—	(750,000)	—	—	2,100,000	19/06/2003	01/07/2004 — 18/06/2013	1.08	2.85
	3,090,000	—	(260,000)	—	—	2,830,000	28/05/2004	01/01/2005 — 27/05/2014	2.40	3.92
	850,000	—	(250,000)	—	(50,000)	550,000	28/05/2004	01/01/2006 — 27/05/2014	2.40	3.55
	850,000	—	—	—	(50,000)	800,000	28/05/2004	01/01/2007 — 27/05/2014	2.40	—
	—	400,000	(110,000)	—	—	290,000	17/08/2005	17/08/2005 — 16/08/2015	3.09	5.47
	—	1,000,000	(1,000,000)	—	—	—	17/08/2005	01/09/2005 — 16/08/2015	3.09	5.12
	—	400,000	—	—	—	400,000	17/08/2005	17/08/2006 — 16/08/2015	3.09	—
	—	1,400,000	—	—	—	1,400,000	17/08/2005	01/09/2006 — 16/08/2015	3.09	—
	—	400,000	—	—	—	400,000	17/08/2005	17/08/2007 — 16/08/2015	3.09	—
	—	1,400,000	—	—	—	1,400,000	17/08/2005	01/09/2007 — 16/08/2015	3.09	—
	—	400,000	—	—	—	400,000	17/08/2005	17/08/2008 — 16/08/2015	3.09	—
	—	1,400,000	—	—	—	1,400,000	17/08/2005	01/09/2008 — 16/08/2015	3.09	—
	—	400,000	—	—	—	400,000	17/08/2005	17/08/2009 — 16/08/2015	3.09	—
	—	1,400,000	—	—	—	1,400,000	17/08/2005	01/09/2009 — 16/08/2015	3.09	—
	—	1,400,000	—	—	—	1,400,000	17/08/2005	01/09/2010 — 16/08/2015	3.09	—
	—	1,552,000	(112,000)	—	—	1,440,000	01/11/2005	01/11/2005 — 31/10/2015	2.95	4.21
	—	1,552,000	—	—	—	1,552,000	01/11/2005	01/11/2006 — 31/10/2015	2.95	—
	—	1,552,000	—	—	—	1,552,000	01/11/2005	01/11/2007 — 31/10/2015	2.95	—
	—	1,552,000	—	—	—	1,552,000	01/11/2005	01/11/2008 — 31/10/2015	2.95	—
	—	1,552,000	—	—	—	1,552,000	01/11/2005	01/11/2009 — 31/10/2015	2.95	—
<b>Total</b>	<b>86,904,850</b>	<b>32,760,000</b>	<b>(3,932,000)</b>	<b>—</b>	<b>(100,000)</b>	<b>115,632,850</b>				<b>4.37</b>

Note: Mr. Chen Jun Hua and Mr. Chan Chi Po, Andy were appointed as Directors of the Company on 17 August 2005.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 35. Reserves

#### The Group

	Notes	2007 RMB'000	2006 RMB'000
Share premium		2,028,585	1,958,794
Capital reserve	(i)	94,894	94,894
Employee share-based compensation reserve		200,453	98,756
Capital redemption reserve		723	723
Exchange reserve		151,620	21,756
Investment revaluation reserve		433,590	—
Statutory reserves	(ii)	643,584	434,898
Retained profits		5,458,513	4,203,309
		<b>9,011,962</b>	<b>6,813,130</b>

Movements of the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on page 46.

- (i) Capital reserve represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares in December 2000 over the nominal value of the share capital of the Company issued in exchange thereafter.
- (ii) In accordance with the relevant PRC rules and regulations, certain subsidiaries of the Company are required to appropriate not less than 10% of their profits after tax to the respective statutory reserves, until the respective balances of the fund reach 50% of the respective registered capitals. Subject to certain restrictions as set out in the relevant PRC regulations, these statutory reserves may be used to offset against their respective accumulated losses, if any.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 35. Reserves *(Continued)*

#### The Company

	Share premium RMB'000	Employee share-based compensation reserve RMB'000	Capital redemption reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 July 2005	2,146,395	74,661	723	—	(252,142)	1,969,637
Net income recognised in equity						
— Currency translation differences	—	—	—	(54,950)	—	(54,950)
Profit for the year <i>(note 11)</i>	—	—	—	—	74,969	74,969
Total recognised income and expenses for the year	—	—	—	(54,950)	74,969	20,019
Shares issued under share option scheme	13,064	(4,616)	—	—	—	8,448
Employee share option benefits	—	28,711	—	—	—	28,711
2004/2005 final dividends paid	—	—	—	—	(262,364)	(262,364)
At 30 June 2006 and 1 July 2006	2,159,459	98,756	723	(54,950)	(439,537)	1,764,451
Net income recognised in equity						
— Currency translation differences	—	—	—	(96,558)	—	(96,558)
Loss for the year <i>(note 11)</i>	—	—	—	—	(253,167)	(253,167)
Total recognised income and expenses for the year	—	—	—	(96,558)	(253,167)	(349,725)
Share issued under share option scheme	69,791	(24,858)	—	—	—	44,933
Employee share option benefits	—	126,555	—	—	—	126,555
2005/2006 final dividends paid	—	—	—	—	(268,834)	(268,834)
<b>At 30 June 2007</b>	<b>2,229,250</b>	<b>200,453</b>	<b>723</b>	<b>(151,508)</b>	<b>(961,538)</b>	<b>1,317,380</b>

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 36. Deferred Tax

#### The Group

At the balance sheet date, the Group had unrecognised deferred tax assets as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Tax effect of temporary differences arising from:		
Tax losses available to set off future assessable profits *	52,972	96,947
Accelerated tax depreciation	3,638	(352)
Others	860	—
	<b>57,470</b>	<b>96,595</b>

\* No provision for deferred tax has been recognised in respect of the tax losses as it is not certain that they can be utilised in the foreseeable future.

The amount of unrecognised deferred tax (charge)/credit for the year of the Group is as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Tax effect of temporary differences arising from:		
Tax losses	(43,975)	58,751
Accelerated tax depreciation	3,990	(265)
Others	860	—
	<b>(39,125)</b>	<b>58,486</b>

The Company had unrecognised deferred tax assets of RMB35,529,000 (2006: RMB48,525,000) at the balance sheet date.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 37. Commitments

#### (a) Capital commitments

At the balance sheet date, the Group had the following capital commitments:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Contracted but not provided for		
— Research and development expenditure	31,810	27,400
— Purchases of property, plant and equipment	77,633	68,754
— Premium payments for land leases	37,650	10,600
Total	147,093	106,754

At the balance sheet date, the Company had no significant capital commitment (2006: Nil).

#### (b) Operating lease commitments and arrangements

##### *As lessee*

At the balance sheet date, the Group had total future minimum lease payments, in respect of land and buildings, under non-cancellable operating leases falling due as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Within one year	130,473	100,488
In the second to fifth years, inclusive	499,892	386,082
After five years	2,320,386	1,795,239
Total	2,950,751	2,281,809

##### *As lessor*

At the balance sheet date, the Group had total future minimum lease receipts, in respect of land and buildings, under non-cancellable operating leases with its tenants falling due as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Within one year	886	886
In the second to fifth years, inclusive	3,666	3,620
After five years	2,946	3,855
Total	7,498	8,361

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 38. Related Party Transactions

- (a) The Group entered into the following material transactions with a related party during the year:

	2007 RMB'000	2006 RMB'000
Fujian Chaoda Agricultural Produce Trading Company Limited <i>(note (i))</i>		
— Purchases of organic fertilizers <i>(note (ii))</i>	376,336	300,168

Notes:

- (i) The related party is a company in which Mr. Kwok Ho, the Chairman and the substantial shareholder of the Company, is a 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.

- (b) Compensation of key management personnel of the Group

The Directors are of the opinion that the key management personnel were solely the Executive Directors of the Company, details of whose emoluments are set out in note 14.

### 39. Particulars of Principal Subsidiaries

Particulars of principal subsidiaries at 30 June 2007 are as follows:

Name of company	Place of incorporation	Principal activity and place of operation	Particulars of issued/registered and paid up capital	Interest held
<b>Held directly by the Company:</b>				
Timor Enterprise Limited	British Virgin Islands	Investment holding in Hong Kong	60,000 ordinary shares of US\$1 each	100%
Insight Decision Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
Huge Market Investments Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
Worthy Year Investments Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%



## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 39. Particulars of Principal Subsidiaries *(Continued)*

Name of company	Place of incorporation	Principal activity and place of operation	Particulars of issued/registered and paid up capital	Interest held
<b>Held directly by the Company: <i>(Continued)</i></b>				
Great Challenge Developments Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
Good Add Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
Chaoda Vegetable & Fruits Trading Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
<b>Held indirectly by the Company:</b>				
Fuzhou Chaoda Modern Agriculture Development Company Limited**	PRC	Growing and sales of crops, breeding and sales of livestock in the PRC	HK\$1,006,000,000	100%
Fujian Chaoda Green Agriculture Development Company Limited*	PRC	Breeding and sales of livestock in the PRC	RMB79,983,000	100%
Fujian Chaoda Livestock Company Limited***	PRC	Provision of agency service in the PRC	RMB80,000,000	100%
Chaoda Vegetable & Fruits Limited	Hong Kong	Distribution and trading of crops in Hong Kong	100,000 ordinary shares of HK\$1 each	100%
臨海超大現代農業發展有限公司*	PRC	Growing and sales of crops in the PRC	US\$390,000	100%
Fujian Chaoda Liancheng Foodstuffs Company Limited*	PRC	Sales of ancillary food products in the PRC	RMB15,000,000	91%
Desire Star (Fujian) Development Company Limited**	PRC	Property holding in the PRC	US\$5,000,000	100%
Jiangxi Nanfeng Chaoda Fruits Company Limited*	PRC	Growing and sales of fruits in the PRC	RMB10,000,000	100%

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 39. Particulars of Principal Subsidiaries *(Continued)*

Name of company	Place of incorporation	Principal activity and place of operation	Particulars of issued/registered and paid up capital	Interest held
<b>Held indirectly by the Company: <i>(Continued)</i></b>				
福州超大嘉和茶業有限公司***	PRC	Growing and sales of tea leaves in the PRC	RMB6,000,000	100%
雲霄超大木業有限公司***	PRC	Growing and sales of timbers in the PRC	RMB6,000,000	100%
慶元超大運輸有限公司***	PRC	Provision of transportation services in the PRC	RMB20,000,000	80%
Inner Mongolia Chaoda Stockbreeding Co., Ltd*	PRC	Breeding and sales of livestock in the PRC	RMB100,000,000	100%
超大(上海)食用菌有限公司**	PRC	Sales of ancillary food products in the PRC	RMB1,500,000	100%
福州超大貿易有限公司***	PRC	Sales of crops in the PRC	RMB30,000,000	100%
* Sino-foreign owned equity joint ventures				
** Wholly foreign owned enterprises				
*** Private limited liability companies				

### 40. Financial Guarantee Contracts — The Company

The Company's guaranteed senior notes and convertible bonds are guaranteed by certain subsidiaries of the Company and the details of the guaranteed senior notes and convertible bonds are set out in note 31 and 32 respectively.

The financial guarantee contracts have not been recognised in the Company's balance sheet as the fair value of the financial guarantee contracts is insignificant.

## Notes to the Financial Statements *(Continued)*

For the year ended 30 June 2007

### 41. Risk Management Objectives and Policies

#### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial market and seeks to minimise potential adverse effects on the Group's financial performance.

##### (i) Currency risk

As the Group's sales and purchases are mainly in RMB, the currency risk is considered not significant. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

##### (ii) Credit risk

The Group has no significant concentration of credit risk. The Group also has policies in place to ensure that services are rendered to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances.

##### (iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

##### (iv) Cash flow and fair value interest rate risk

The Group's fair value interest rate risk primarily relates to the guaranteed senior notes and convertible bonds. The Group's cash flow interest rate risk primarily relates to the short-term bank deposits and borrowings. The Group currently has not used any interest rate swaps to hedge its exposure to interest rate but may enter into interest rate hedging instruments in the future to hedge any significant interest rate exposure should the need arise.

#### (b) Fair value estimation

The estimate of fair values of biological assets, available-for-sale investments, guaranteed senior notes, convertible bonds and share-based compensation transactions are disclosed in notes 19, 20, 31, 32 and 34 respectively. The fair values of other current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity.

## Notes to the Financial Statements *(Continued)*

*For the year ended 30 June 2007*

### 41. Risk Management Objectives and Policies *(Continued)*

**(c) Business risk**

The Group is exposed to financial risks arising from changes in prices of agricultural produce and livestock which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include weather conditions and livestock diseases. The Group has little or no control over these conditions and factors.

### 42. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

## Five Year Financial Summary

For the year ended 30 June 2007

A summary of the consolidated results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

### Results

	Year ended 30 June				
	2003 RMB'000 (as restated)	2004 RMB'000 (as restated)	2005 RMB'000 (as restated)	2006 RMB'000	2007 RMB'000
Turnover	1,485,307	1,861,758	2,238,454	2,797,707	<b>3,849,930</b>
Profit before income tax	666,402	888,830	1,297,285	1,358,284	<b>1,735,287</b>
Income tax credit/(expense)	—	93,096	(361)	(344)	<b>(468)</b>
Profit for the year	666,402	981,926	1,296,924	1,357,940	<b>1,734,819</b>
Profit for the year, attributable to:					
Minority interests	(1,945)	(2,103)	(708)	(295)	<b>2,095</b>
Equity shareholders of the Company	668,347	984,029	1,297,632	1,358,235	<b>1,732,724</b>
	666,402	981,926	1,296,924	1,357,940	<b>1,734,819</b>

### Assets, Liabilities and Minority Interests

	As at 30 June				
	2003 RMB'000 (as restated)	2004 RMB'000 (as restated)	2005 RMB'000 (as restated)	2006 RMB'000	2007 RMB'000
Total assets	3,535,644	4,741,916	7,753,252	10,427,974	<b>12,650,912</b>
Total liabilities	(619,913)	(99,226)	(1,969,618)	(3,359,270)	<b>(3,379,401)</b>
Minority interests	(3,609)	(1,506)	(4,798)	(4,503)	<b>(6,598)</b>
Total equity attributable to equity shareholders of the Company	2,912,122	4,641,184	5,778,836	7,064,201	<b>9,264,913</b>

The above financial summary for the three years ended 30 June 2003, 2004 and 2005, and as at 30 June 2003, 2004 and 2005 have been restated as a result of the adoption of Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, which were effective for accounting period beginning on or after 1 July 2005.