



CHAODA MODERN AGRICULTURE (HOLDINGS) LIMITED

超大現代農業(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 682)

FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2005

Turnover increased by 20% to RMB2,238 million.
EBITDA increased by 26% to RMB1,235 million.
Net Profit increased by 30% to RMB1,311 million.
Net Profit increased by 24% to RMB1,135 million (excluding an exceptional item of fair value gained from biological assets in current year and tax provision wrote back in last year).

The Board of Directors (the "Board") of Chaoda Modern Agriculture (Holdings) Limited (the "Company" or "Chaoda") is pleased to announce the audited consolidated final results of the Company and its subsidiaries (collectively the "Group") for the year ended 30 June 2005, together with the comparative figures for the corresponding period in 2004 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2005

		2005 RMB'000	(As restated) 2004 RMB'000
Turnover	3	2,238,454	1,861,758
Cost of sales		(729,719)	(629,894)
Gross profit		1,508,735	1,231,864
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	11	175,620	—
Other revenues	4	83,793	30,170
Selling and distribution expenses		(228,090)	(185,094)
General and administrative expenses		(117,420)	(97,555)
Research expenses		(67,763)	(66,709)
Other operating expenses	6	(89,945)	(48,526)
Profit from operations		1,264,930	864,150
Finance costs	7(a)	(75,674)	(10,844)
Share of profits less losses of associates		131,633	64,769
Profit from ordinary activities before taxation	7	1,320,889	918,075
Taxation	8	(10,594)	89,083
Profit from ordinary activities after taxation		1,310,295	1,007,158
Minority interests		708	2,103
Profit attributable to shareholders		1,311,003	1,009,261
Earnings per share			
— Basic	9(a)	RMB0.56	RMB0.47
— Diluted	9(b)	RMB0.55	RMB0.46
Dividends			
— Final	10	262,364	181,126
— Special	10	—	17,368
		262,364	198,494

CONSOLIDATED BALANCE SHEET

As at 30 June 2005

		2005 RMB'000	(As restated) 2004 RMB'000
NON-CURRENT ASSETS			
Fixed assets		1,898,230	1,425,932
Construction-in-progress		466,069	409,332
Long-term prepaid rentals		1,869,500	1,138,300
Biological assets	11(a)	282,245	—
Deferred development costs		74,258	74,758
Land use rights		23,091	23,391
Deferred expenditure		79,682	43,234
Computer software development cost		—	19,724
Other long-term deposits		7,000	2,150
Interests in associates		410,967	267,873
CURRENT ASSETS			
Biological assets	11(a)	261,606	—
Other investments		67,388	—
Inventories	12	21,731	126,406
Accounts receivable	13	96,978	59,669
Other receivables, deposits and prepayments		245,536	206,668
Cash and bank balances		1,948,971	944,479
		2,642,210	1,337,222
CURRENT LIABILITIES			
Amounts due to a related company		16,350	7,306
Accounts payable	14	5,006	9,053
Other payables and accrued charges		90,467	44,298
Bank loans — secured		16,890	38,569
		128,713	99,226
NET CURRENT ASSETS		2,513,497	1,237,996
NON-CURRENT LIABILITIES			
Guaranteed senior notes		1,840,905	—
NET ASSETS		5,783,634	4,642,690
CAPITAL AND RESERVES			
Share capital		250,665	248,479
Reserves	15	5,528,171	4,392,705
		5,778,836	4,641,184
MINORITY INTERESTS		4,798	1,506
		5,783,634	4,642,690

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The financial statements have been prepared under the historical cost convention. The accounting policies and methods of computation used in the preparation of the audited accounts are consistent with those used in the annual accounts for the year ended 30 June 2004 except for the adoption of the Statements of Standard Accounting Practice 36 "Agriculture" ("SSAP 36").

SSAP 36 is effective for the first time for the current year's financial statements. The principal effect of adoption of SSAP 36 is in relation to the agricultural activities of the biological assets and agricultural produce of the Group which include fruit trees, tea trees, livestock and vegetables. SSAP 36 requires the measurement of biological assets at their fair value less estimated point-of-sale costs at initial recognition and at each balance sheet date, while agricultural produce harvested from the Group's biological assets should be measured at its fair value less estimated point-of-sale costs at the point of harvest. The gain (or loss) arising on initial recognition of biological assets at fair value less estimated point-of-sale costs is recognized in the consolidated income statement. Certain new disclosure requirements for biological assets and agricultural produce were introduced.

SSAP 36 is also applicable to the associate which is engaged in the agricultural business. The retrospective effect of SSAP 36 in respect of the share of net assets of the associate in the consolidated financial statement for the years ended 30 June 2004 and 2005 are as follows:

	2005 RMB'000	2004 RMB'000
Increase in share of net profits of associate during the year	65,545	12,507
Retrospective effect in the opening retained profits	28,140	15,633
Total effect in the interests in associates in the consolidated balance sheet	93,685	28,140

The adoption of SSAP 36 has resulted in changing the Group's accounting policy. However, as it is impracticable to measure the fair values of the biological assets at the beginning of the year, comparative figures of biological assets were not restated. Accordingly, excluding the impact of the adoption of SSAP 36 in the associates' assets, the impact of the changes in accounting policy, with adoption of SSAP 36 is the increase of the profit of RMB175,620,000 for the year ended 30 June 2005.

2. Potential impact arising from recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the preparation of the financial statements for the year ended 30 June 2005.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on the preparation and presentation of its results of operations and financial position. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. Turnover

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

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

	2005 RMB'000	2004 RMB'000
Sales of crops	2,113,294	1,695,546
Sales of livestock	41,354	41,007
Supermarkets chain operation	83,806	125,205
	2,238,454	1,861,758

4. Other revenues

	2005 RMB'000	2004 RMB'000
Interest income	23,004	6,950
Investment income	28,299	—
Agency fee income	10,837	5,808
Sundry income from supermarkets chain operation	4,577	4,161
Amortization of negative goodwill	8,136	8,136
Others	8,940	5,115
	83,793	30,170

5. Segment information

Analysis of business segment results for the year ended 30 June 2005

	Growing and sales of crops RMB'000	Breeding and sales of livestock RMB'000	Supermarkets chain operation RMB'000	Inter- segment elimination RMB'000	Total RMB'000
Sales to external customers	2,115,597	41,354	83,806	(2,303)	2,238,454
Cost of sales	(640,399)	(13,075)	(78,548)	2,303	(729,719)
Gross profit	1,475,198	28,279	5,258	—	1,508,735
Unallocated items:					
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets					175,620
Other revenues					83,793
Selling and distribution expenses					(228,090)
General and administrative expenses					(117,420)
Research expenses					(67,763)
Other operating expenses					(89,945)
Profit from operations					1,264,930
Finance costs					(75,674)
Share of profits less losses of associates					131,633
Profit from ordinary activities before taxation					1,320,889
Taxation					(10,594)
Profit from ordinary activities after taxation					1,310,295
Minority interests					708
Profit attributable to shareholders					1,311,003

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

Analysis of business segment results for the year ended 30 June 2004 (Restated)

	Growing and sales of crops RMB'000	Breeding and sales of livestock RMB'000	Supermarkets chain operation RMB'000	Inter- segment elimination RMB'000	Total RMB'000
Sales to external customers	1,698,345	41,007	125,205	(2,799)	1,861,758
Cost of sales	(503,321)	(12,732)	(116,640)	2,799	(629,894)
Gross profit	1,195,024	28,275	8,565	—	1,231,864
Unallocated items:					
Other revenues					30,170
Selling and distribution expenses					(185,094)
General and administrative expenses					(97,555)
Research expenses					(66,709)
Other operating expenses					(48,526)
Profit from operations					864,150
Finance costs					(10,844)
Share of profits less losses of associates					64,769
Profit from ordinary activities before taxation					918,075
Taxation					89,083
Profit from ordinary activities after taxation					1,007,158
Minority interests					2,103
Profit attributable to shareholders					1,009,261

Growing and sales of crops is the Group's primary business segment. The turnover, operating profit and total assets attributable to this business segment accounted for over 90% of the Group's consolidated totals for the years ended 30 June 2005 and 2004. Consequently, no further segment information by business activity is presented.

The Group's operations are primarily in the People's Republic of China (the "PRC") and the Group's sales, gross profit 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 2005 and 2004. Consequently, no segment information by geographical area is presented.

6. Other operating expenses

	2005 RMB'000	(As restated) 2004 RMB'000
Expenses incurred for idle farmland and maintenance	30,987	28,520
Loss on disposal of fixed assets	20,872	5,447
Compensation paid for occupying land	19,704	—
Plantation cost for windbreaks	11,964	4,714
Others	6,418	9,845
	89,945	48,526

7. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2005 RMB'000	2004 RMB'000
Interest on the guaranteed senior notes issued	57,204	—
Bank charges	12,307	5,871
Interest on bank loans	6,163	4,973
	75,674	10,844

(b) Staff costs

	2005 RMB'000	2004 RMB'000
Salaries, wages and other benefits	182,916	141,944
Retirement benefits costs	1,059	1,840
	183,975	143,784

(c) Other items

	2005 RMB'000	2004 RMB'000
Amortization of negative goodwill	(8,136)	(8,136)
Auditors' remuneration		
— Current year	4,070	2,901
— Under-provision in prior year	—	87
Cost of inventories sold	729,719	629,894
Depreciation of fixed assets, net of amount capitalized	110,347	83,352
Operating lease expenses		
— land and buildings	62,523	59,287
— motor vehicles	102	130
Amortization of computer software development cost	19,724	19,658
Amortization of deferred development costs	12,100	5,173
Amortization of land use rights	676	274
Amortization of long-term prepaid rentals, net of amount capitalized	24,512	14,507
Amortization of deferred expenditure, net of amount capitalized	9,316	8,021
Research expenses	67,763	66,709
Loss on disposal of fixed assets	20	

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

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Profit before tax	<u>1,320,889</u>	<u>918,075</u>
Notional tax on profit before tax, calculated at the rate applicable to profits in the countries concerned	(422,209)	(277,496)
Net tax effect of expense and income that are not deductible and taxable in determining taxable profit and tax allowance	27,814	2,167
Tax effect of non-taxable offshore profit	800	403
Tax effect of unrecognized tax losses	(27,263)	(12,991)
Tax effect of exemption benefits under State-Level Agricultural Leading Enterprise (Under-provision)/Over-provision in previous years	420,668	287,917
Share of tax of associates	(10,233)	(4,013)
	<u>(10,594)</u>	<u>89,083</u>

9. Earnings per share

(a) Basic earnings per share

The calculation of the earnings per share is based on the profit attributable to shareholders of RMB1,311,003,000 (2004: RMB1,009,261,000, as restated) and the weighted average number of 2,350,153,816 (2004: 2,167,796,045) 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 shareholders of RMB1,311,003,000 (2004: RMB1,009,261,000, as restated) and the weighted average number of 2,394,606,167 (2004: 2,210,334,639) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

(c) Reconciliation

	2005 Number of shares	2004 Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>2,350,153,816</u>	2,167,796,045
Deemed issue of ordinary shares	<u>44,452,351</u>	42,538,594
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>2,394,606,167</u>	<u>2,210,334,639</u>

10. Dividends

	2005		(As restated) 2004	
	RMB per share	RMB'000	RMB per share	RMB'000
Final dividend proposed of HK\$0.107 (2004: HK\$0.073) per ordinary share	0.111	262,364	0.077	181,126
Special dividend proposed of HK\$N11 (2004: HK\$0.007) per ordinary share	—	—	0.008	17,368
	<u>0.111</u>	<u>262,364</u>	<u>0.085</u>	<u>198,494</u>

At a meeting held on 21 October 2005, the directors proposed a final dividend of HK\$0.107 (equivalent to RMB0.111) per ordinary share. The proposed final dividend is subject to approval by the shareholders in the forthcoming annual general meeting and has not yet been accounted for in the current year's financial statements, but will be reflected as an appropriation of retained profits in the financial statements for the year ending 30 June 2006.

At a meeting held on 19 October 2004, the directors proposed a final dividend of HK\$0.073 (equivalent to RMB0.077) per ordinary share. The directors also proposed a special dividend of HK\$0.007 (equivalent to RMB0.008) per ordinary share for the exceptional income of tax provided in prior years being written back during the year ended 30 June 2004. The proposed final dividend and the special dividend had been approved by the shareholders in the annual general meeting and were reflected as an appropriation of retained profits in the financial statements for the year ended 30 June 2005.

11. Biological assets

	Fruit trees and tea trees		Livestock		Vegetables		Trees in plantation forest		Total
	Area (Mu)	RMB'000	Number	RMB'000	Area (Mu)	RMB'000	Trunks ('000)	RMB'000	
Reclassified from fixed assets	28,148	233,832	—	—	—	—	1,680	5,179	239,011
Reclassified from inventories	—	23,984	3,850	13,670	161,861	91,566	—	—	129,220
Gain arising from changes in fair value less estimated point-of-sale costs	—	3,276	—	2,304	—	170,040	—	—	175,620
At 30 June 2005	<u>28,148</u>	<u>261,092</u>	<u>3,850</u>	<u>15,974</u>	<u>161,861</u>	<u>261,606</u>	<u>1,680</u>	<u>5,179</u>	<u>543,851</u>

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

	Fruit trees and tea trees	Livestock	Vegetables	Trees in plantation forest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current portion	261,092	15,974	—	5,179	282,245
Current portion	—	—	261,606	—	261,606
	<u>261,092</u>	<u>15,974</u>	<u>261,606</u>	<u>5,179</u>	<u>543,851</u>

Biological assets as at 30 June 2005 are stated at fair values less estimated point-of-sale costs.

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

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

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.

As at 30 June 2005, trees in plantation forest represented the growing of eucalyptus and their costs amounted to RMB5,179,000 (2004: Nil). The eucalyptus were cultivated at initial stage and the Directors considered that the fair value of eucalyptus was largely the same as the cost incurred after taking into consideration the growing conditions and the period of plantation.

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

(b) The fair value less estimated point-of-sale costs of the quantity and amount of agricultural produce harvested during the year were as follows:

	Quantity Tonnes	Amount RMB'000
Fruit and tea leaves	34,179	60,106
Vegetables	857,775	1,400,790
	<u>891,954</u>	<u>1,460,896</u>

(c) No reconciliation of carrying amount of biological assets is made as it is impractical to obtain the fair value of biological assets as at 1 July 2004.

12. Inventories

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Growing crops	—	101,953
Livestock	(a)	11,667
Agricultural materials	(b)	4,713
Merchandise for resale	6,077	8,073
	<u>21,731</u>	<u>126,406</u>

Notes:

- With adoption of SSAP 36, living animals and plants which are managed by the Group are classified under biological assets. As it is impracticable to measure the fair values of the biological assets at the beginning of the year, no adjustment on comparative figures was made.
- Agricultural materials include seeds, fertilizers and pesticides not yet utilized at year end.
- At 30 June 2005 and 2004, all inventories were stated at cost.

13. Accounts receivable

The Group's trading terms with its local wholesale and retail sales are 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 customer's credit worthiness.

The ageing of the Group's accounts receivable is analyzed as follows:

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
0 — 1 month	87,806	55,904
1 — 3 months	395	507
Over 3 months	8,777	3,258
	<u>96,978</u>	<u>59,669</u>

14. Accounts payable

The ageing of the Group's accounts payable is analyzed as follows:

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
0 — 1 month	2,015	4,202
1 — 3 months	1,713	4,807
Over 3 months	1,278	44
	<u>5,006</u>	<u>9,053</u>

15. Reserves

	Share premium RMB'000	Capital reserve RMB'000	Capital redemption reserve RMB'000	Statutory common reserve RMB'000	Statutory welfare reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 July 2003, as previously reported	1,127,262	94,894	523	84,111	731	1,385,702	2,693,223
Retrospective effect of adopting SSAP 36 in associates' accounts	—	—	—	—	—	15,633	15,633
At 1 July 2003, as restated retrospectively	1,127,262	94,894	523	84,111	731	1,401,335	2,708,856
Issue of shares	711,514	—	—	—	—	—	711,514
Bonus shares issued	(10,286)	—	—	—	—	—	(10,286)
New shares exercised and issued under share option scheme	62,926	—	—	—	—	—	62,926
Issuing expenses	(17,771)	—	—	—	—	—	(17,771)
Profit for the year (Restated)	—	—	—	—	—	1,009,261	1,009,261
2002/2003 final dividends paid	—	—	—	—	—	(71,795)	(71,795)
Appropriations	—	—	—	96,911	300	(97,211)	—
At 30 June 2004	<u>1,873,645</u>	<u>94,894</u>	<u>523</u>	<u>181,022</u>	<u>1,031</u>	<u>2,241,590</u>	<u>4,392,705</u>
At 1 July 2004, as previously reported	1,873,645	94,894	523	181,022	1,031	2,213,450	4,364,565
Retrospective effect of adopting SSAP 36 in associates' accounts	—	—	—	—	—	28,140	28,140
At 1 July 2004, as restated retrospectively	1,873,645	94,894	523	181,022	1,031	2,241,590	4,392,705
Premium on repurchased shares	(3,802)	—	—	—	—	—	(3,802)
New shares exercised and issued under share option scheme	26,759	—	—	—	—	—	26,759
Transfer to capital redemption reserve	—	—	200	—	—	(200)	—
Profit for the year	—	—	—	—	—	1,311,003	1,311,003
2003/2004 final and special dividends paid	—	—	—	—	—	(198,494)	(198,494)
Appropriations	—	—	—	105,710	586	(106,296)	—
At 30 June 2005	<u>1,896,602</u>	<u>94,894</u>	<u>723</u>	<u>286,732</u>	<u>1,617</u>	<u>3,247,603</u>	<u>5,528,171</u>

According to PRC rules and regulations and the Articles of Association of the Group's respective PRC subsidiaries:

Domestic enterprises are required to transfer 10% and 5% of their profits after tax to statutory common reserve and statutory welfare reserve respectively. The transfer to the statutory common reserve is required until it aggregates to 50% of the Company's registered share capital.

FIEs are required to transfer 10% of its profits after tax to statutory common reserve. The transfer to the statutory common reserve is required until it aggregates to 50% of the Company's registered share capital.

The statutory common reserve can be used to make good previous years' losses while the statutory welfare reserve can be utilized for employees' welfare facilities. The statutory welfare reserve is non-distributable other than in liquidation.

The above appropriations of reserves include the appropriations made by the Group's PRC domestic enterprises and the Group's FIEs.

16. Comparative figures

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

DIVIDENDS

The Board has recommended the payment of a final dividend of RMB0.111 per share (approximately equivalent to HK\$0.107 per share) for the year ended 30 June 2005 (2004: a final dividend of RMB0.077 per share (approximately equivalent to HK\$0.073 per share) and a special dividend of RMB0.008 per share (approximately equivalent to HK\$0.007 per share)), subject to the approval by the shareholders at the forthcoming annual general meeting to be held on 25 November 2005, to the shareholders whose names appear on the Register of Members of the Company on 25 November 2005 and payable on or before 8 December 2005. No interim dividend was declared for the six months ended 31 December 2004 (2003: Nil).

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 23 November 2005 to Friday, 25 November 2005, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the final dividend, all completed transfer forms together with relevant share certificates must be lodged with the Company's share registrar in Hong Kong, namely, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 22 November 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the year ended 30 June 2005, turnover and profit attributable to shareholders of the Group amounted to approximately RMB2,238,454,000 and RMB1,311,003,000, representing an increase of 20% and 30% as compared with last year.

Turnover for the year increased 20% from RMB1,861,758,000 of last year. Such increase was mainly due to the reinforced direct sales to overseas customers and the sustained development of sales network targeting at cities with high purchasing power. In respect of land area, the weighted average of farmland areas for the year increased from 111,835 mu last year to 150,341 mu, representing an increase of 34%. Besides, after prolonged improvement work on previously used land, the capacity was further enhanced, leading to simultaneous increases in production and sales volumes. As at 30 June 2005, the aggregate usable farmland of the Group (excluding citrus farms owned by associates and mountain area) was 188,509 mu, representing an increase of 21% from 156,439 mu last year.

Sales of crops for the year accounted for 94% of total turnover, while sales of livestock and supermarkets chain operation accounted for 2% and 4% respectively. Save for supermarkets chain operation, there had not been any material change in the sales mix by product.

Domestic sales of crops represented 70% of the total turnover for the year while export sales of crops (by means of direct sales to overseas customers and sales locally by delivery to the PRC trading companies) took up the remaining 30%. There had not been any material change in the sales mix by market.

The gross profit margin in the sales of crops being the Group's principal business remains at about 70%. The overall gross profit margin was slightly increase to 67% as compared to 66% of last year. It was attributable to higher percentage of segment revenue generating from the sales of crops, being the Group's principal business, in total turnover and the reduction in supermarkets chain operation that are of lower gross profit margin.

Selling and distribution expenses and general and administrative expenses for the year represented 10.2% and 5.2% of turnover respectively, as compared to 9.9% and 5.2% of last year. The percentage change in the selling and distribution expenses and the general and administrative expenses was immaterial.

The pre-tax profit margin for the year was 59%, as compared to 49% of last year. Net profit margin was 59%, as compared to 54% of last year. The increase in per-tax profit margin and net profit margin was attributable to gain arising from change in fair value less estimated point-of-sale cost of biological assets upon adoption of the SSAP 36 which was adopted the first time during the year. Except the share of taxation attributable to an associate company, there was no other tax provision made during the year.

Financial Performance

For the year ended 30 June 2005, the Group's turnover and profits attributable to shareholders were RMB2,238,454,000 and RMB1,311,003,000 respectively, representing an increase of 20% and 30% as compared with last year. The main growth driver was the Company's expansion in production bases. Sales of crops increased from 712,000 tonnes last year to 892,000 tonnes this year. The Group has continued to increase its sales to institutional clients, which accounted for an increase in total sales from 4% to 6%. Export sales were at the same level as last year, accounting for 30% of the Company's sales. The wholesale market remained the Company's major sales channel, representing 63% of total sales. During the year, Chaoda was able to offset the impact of bad weather and price fluctuations because of its nationwide production bases and extensive sales network. It demonstrates the Company's strong competitiveness and ability in risk management.

Production Base

Agricultural land areas (excluding citrus farms owned by associates and mountain area) held by the Group in the PRC increased from 156,439 mu (10,429 hectares) on 30 June 2004 to 188,509 mu (12,567 hectares) on 30 June 2005. In this regard, the Company's production bases have different longitudes and latitudes and of different altitudes which are strategically located in 12 provinces and cities in China. In particular, this includes mainly Fujian in the south, Jiangsu and Hubei along the Yangtze River, Beijing, Tianjin and the northeast areas in the north, and the counter-seasonal bases located in the mountains. This leads to stable year-round supply of products and diversifies the risk of natural disasters effectively. The Company is also able to enjoy the strong demand for organic vegetables and fruits in local markets, avoid high transportation costs and benefit from the access to the best market information.

Other Operating Data

For the year ended 30 June 2005, the other operating data relating to the Group's principal business of growing and sales of crops include the yield per mu of 6.11 tonnes and the yield per mu per harvest of 1.93 tonnes as compared to the same period last year of 5.95 tonnes and 1.85 tonnes respectively. The average sales unit price per kg was RMB2.37 as compared to the same period last year of RMB2.38. There had not been any material change in other operating data during the year under review.

STAFF AND REMUNERATION POLICIES

As at 30 June 2005, the Group employed about 13,175 staff member, of which 11,444 were workers on the Group's farmland. Employees' salaries are determined at a competitive level. Other staff benefits include the Hong Kong Mandatory Provident Fund, insurance, education subsidies, training programmes and share option scheme.

A share option scheme (the "Scheme") was adopted pursuant to a resolution passed at the extraordinary general meeting of the Company held on 19 June 2002. As at 30 June 2005, options in respect of 159,717,500 Shares (after adjustment) were granted to the relevant participants under the Scheme.

PROSPECTS

We believe that China's agricultural sector has a bright future. The central government is concerned with the slow growth of farmers' income and has given a top priority on issues related to "farmers, rural area and agricultural industry." The government is expected to maintain its favorable policies for the agricultural sector, demonstrated by the "No. 1 Document" issued in early 2004. The recent 11th Plenary Meeting of the Communist Party reinforced the government's commitment to the sector. Immature market infrastructure, limited technical support and low productivity are the main reasons for the gap between urban and rural areas. In addition to the favorable policies, the government is promoting the industrialization of the sector to improve productivity and distribution of agricultural products. Already a pioneer in agricultural industrialization, Chaoda will adhere to and improve its business model. We believe that our business model will prove competitive over the long run against other business models emerging in the trend of the agricultural industrialization. Looking forward, Chaoda will capitalize on the market opportunities and continue to grow. We will further solidify our leading position in China's agricultural industry through the following strategies.

Brand building — from corporate to product

At the corporate level, Chaoda is highly recognized by government authorities and industry players, demonstrated by the various awards. The Company is now committed to make Chaoda a household name, well known to Chinese consumers. The Company will gradually adjust its product portfolio and production plan, in order to provide stable year-round supply of key products to institutional customers such as supermarkets, as well as to increase market shares. Meanwhile, the Company will broaden the usage of Chaoda trademarks on its products to increase the awareness of the Chaoda brand among consumers. We believe for the long run, a key competitiveness of Chaoda will be a well recognized brand by both industry experts and ordinary consumers. With a strong brand, the Company can reduce its reliance on sales channels and have a strong foundation for long term growth.

Expanding Sales Channels for Institutional Customers and the Overseas Market

Through its vertically integrated business model, Chaoda has successfully established highly effective sales channels. Chaoda will continue to expand its sales to institutional clients, such as supermarket. We believe that supermarkets will account for an increasing market share in the future. In addition, China's accession to the World Trade Organization has created opportunities for agricultural companies, especially large producers with rigorous quality control standards, such as Chaoda. We will continue to develop export channels to complement the Company's domestic businesses.

Prudent Investment in New Businesses

The Company's success in vegetables and fruits is based on its distinctive business model. The Company has enjoyed valuable support from the Central and local governments and has accumulated extensive knowledge of related industries leading to new opportunities for expansion and investments in downstream businesses such as food processing, logistics, livestock, etc. Prudent investment in new businesses will complement our core business, strengthen our competitiveness and diversify operational risks.

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

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

Furthermore, many producers