



# **CHAODA MODERN AGRICULTURE (HOLDINGS) LIMITED**

## **超大現代農業（控股）有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code : 682)**

### **ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2006**

#### **HIGHLIGHTS**

Turnover increased by 32% to RMB 1,696,583,000.

Gross Profit increased by 31% to RMB1,130,765,000.

Profit attributable to shareholders (excluding changes in fair value of biological assets and convertible bonds) increased by 35% to RMB760,818,000.

Profit attributable to shareholders amounted to RMB581,445,000.

The board of directors (the “Board”) of Chaoda Modern Agriculture (Holdings) Limited (the “Company” or “Chaoda”) is pleased to present the interim results for the six months ended 31 December 2006 of the Company and its subsidiaries (collectively the “Group”). The consolidated income statement of the Group for the six months ended 31 December 2006 and the consolidated balance sheet of the Group as at 31 December 2006, along with selected explanatory notes, are unaudited and condensed and have been reviewed by the Company’s Audit Committee and the independent certified public accountants.

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2006 — Unaudited

		Six months ended 31 December	
		2006	2005
	Notes	RMB'000	RMB'000
Turnover	3	1,696,583	1,286,230
Cost of sales		<u>(565,818)</u>	<u>(422,525)</u>
Gross profit		1,130,765	863,705
Other revenues		49,050	71,822
(Loss)/Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	9	(77,869)	18,831
Selling and distribution expenses		(177,989)	(128,283)
General and administrative expenses		(119,601)	(77,176)
Research expenses		(28,638)	(23,902)
Other operating expenses		<u>(63,936)</u>	<u>(46,426)</u>
Profit from operations		711,782	678,571
Finance costs	5(a)	(72,631)	(83,717)
Share of net profit of associates		43,501	20,401
Change in fair value of convertible bonds	13	(101,504)	—
Loss on deemed disposal of interest in associates		<u>—</u>	<u>(33,881)</u>
<b>Profit before income tax</b>	5	<b>581,148</b>	<b>581,374</b>
Income tax	6	<u>(160)</u>	<u>(25)</u>
<b>Profit for the period</b>		<b><u>580,988</u></b>	<b><u>581,349</u></b>
<b>Profit attributable to:</b>			
Equity shareholders of the Company		581,445	581,326
Minority interests		<u>(457)</u>	<u>23</u>
<b>Profit for the period</b>		<b><u>580,988</u></b>	<b><u>581,349</u></b>
<b>Dividends</b>	7	<b><u>268,834</u></b>	<b><u>262,364</u></b>
<b>Earnings per share for profit attributable to equity shareholders of the Company during the period</b>			
— Basic	8(a)	<u>RMB0.25</u>	<u>RMB0.25</u>
— Diluted	8(b)	<u>RMB0.24</u>	<u>RMB0.24</u>

# CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2006 — Unaudited

	Notes	31 December 2006 RMB'000	30 June 2006 RMB'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		2,641,144	2,243,719
Construction-in-progress		694,112	770,971
Prepaid premium for land leases		3,000,024	2,653,230
Biological assets	9	723,965	431,706
Deferred development costs		72,696	70,288
Deferred expenditure		147,020	138,817
Other long-term deposits		3,500	3,500
Interest in associates	10	626,349	593,797
Available-for-sale investments		423,870	—
		<u>8,332,680</u>	<u>6,906,028</u>
<b>Current assets</b>			
Prepaid premium for land leases		68,978	90,603
Biological assets	9	325,741	452,587
Inventories		19,811	26,637
Accounts receivable	11	126,617	96,613
Other receivables, deposits and prepayments		378,416	241,783
Cash and cash equivalents		1,875,678	2,613,723
		<u>2,795,241</u>	<u>3,521,946</u>
<b>Current liabilities</b>			
Amounts due to a related company		18,073	37,389
Accounts and bills payable	12	8,047	10,845
Other payables and accrued charges		88,146	117,080
Bank loans — secured		10,000	10,000
		<u>124,266</u>	<u>175,314</u>
<b>Net current assets</b>		<u>2,670,975</u>	<u>3,346,632</u>
<b>Total assets less current liabilities</b>		<u>11,003,655</u>	<u>10,252,660</u>
<b>Non-current liabilities</b>			
Guaranteed senior notes		1,735,295	1,794,501
Convertible bonds	13	1,443,745	1,389,455
		<u>3,179,040</u>	<u>3,183,956</u>
<b>Net assets</b>		<u>7,824,615</u>	<u>7,068,704</u>
<b>CAPITAL AND RESERVES</b>			
<b>Capital and reserves attributable to the equity shareholders of the Company</b>			
Share capital		251,635	251,071
Reserves		7,568,934	6,813,130
		<u>7,820,569</u>	<u>7,064,201</u>
<b>Minority interests</b>		<u>4,046</u>	<u>4,503</u>
<b>Total equity</b>		<u>7,824,615</u>	<u>7,068,704</u>

# NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

## 1. Basis of Preparation

The unaudited condensed consolidated interim financial statements (the “Interim Financial Statements”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure provisions in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Interim Financial Statements should be read in conjunction with the annual financial statements of the Company for the year ended 30 June 2006 (the “2006 Annual Financial Statements”).

## 2. Principal Accounting Policies

The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in the 2006 Annual Financial Statements.

The following new standards, amendments to standards and interpretations are relevant to the Group’s operations and are applicable for the year ending 30 June 2007:

HKAS 19 (Amendment)	Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures <sup>1</sup>
HKAS 21(Amendment)	The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation <sup>1</sup>
HKAS 27 & HKFRS 3 (Amendment)	Consolidation and Separate Financial Statements and Business Combinations — Definition of Subsidiary (and appendix to HKAS 1, Presentation of Financial Statements) <sup>1</sup>
HK(IFRIC) — Int 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2006

<sup>2</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 June 2006

The above mentioned new standards, amendments to standards and interpretations have no material impact on the Group’s financial statements.

The Group has not early adopted the following standards or interpretations relevant to its operations that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such standards and interpretations will not result in substantial changes to the Group’s accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements — Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments — Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>4</sup>
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment <sup>2</sup>
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions <sup>3</sup>
HK(IFRIC) — Int 12	Service Concession Arrangements <sup>5</sup>

<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 November 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2008

### 3. 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 has been 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 recognized in turnover during the period is as follows:

	Six months ended 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of crops	1,676,170	1,233,194
Sales of livestock	20,413	19,340
Supermarket chain operation	—	33,696
	<u>1,696,583</u>	<u>1,286,230</u>

### 4. Segment Information

Analysis of business segment result for the six months ended 31 December 2006.

	Six months ended 31 December 2006		
	Growing and sales of crops <i>RMB'000</i>	Breeding and sales of livestock <i>RMB'000</i>	Total <i>RMB'000</i>
Sales to external customers	1,676,170	20,413	1,696,583
Cost of sales	<u>(554,462)</u>	<u>(11,356)</u>	<u>(565,818)</u>
Segment results	1,121,708	9,057	1,130,765
Unallocated items:			
Other revenues			49,050
Loss arising from changes in fair value less estimated point-of-sale costs of biological assets			(77,869)
Selling and distribution expenses			(177,989)
General and administrative expenses			(119,601)
Research expenses			(28,638)
Other operating expenses			<u>(63,936)</u>
Profit from operations			711,782
Finance costs			(72,631)
Share of net profit of associates			43,501
Change in fair value of convertible bonds			<u>(101,504)</u>
Profit before income tax			581,148
Income tax			<u>(160)</u>
Profit for the period			<u>580,988</u>

Analysis of business segment result for the six months ended 31 December 2005.

	Six months ended 31 December 2005				Total RMB'000
	Growing and sales of crops RMB'000	Breeding and sales of livestock RMB'000	Supermarket chain operation RMB'000	Inter- segment elimination RMB'000	
Sales to external customers	1,233,194	19,340	33,696	—	1,286,230
Inter-segment sales	2,555	—	—	(2,555)	—
Cost of sales	<u>(387,967)</u>	<u>(6,764)</u>	<u>(30,349)</u>	<u>2,555</u>	<u>(422,525)</u>
Segment results	847,782	12,576	3,347	—	863,705
Unallocated items:					
Other revenues					71,822
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets					18,831
Selling and distribution expenses					(128,283)
General and administrative expenses					(77,176)
Research expenses					(23,902)
Other operating expenses					<u>(46,426)</u>
Profit from operations					678,571
Finance costs					(83,717)
Share of net profit of associates					20,401
Loss on deemed disposal of interest in associates					<u>(33,881)</u>
Profit before income tax					581,374
Income tax					<u>(25)</u>
Profit for the period					<u><u>581,349</u></u>

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

Growing and sales of crops is the Group's primary business segment. The turnover, operating profit and total assets attributable to this business segment accounted for over 90% of the Group's consolidated totals for the six months ended 31 December 2006 and 2005.

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 six months ended 31 December 2006 and 2005. Consequently, no segment information by geographical area is presented.

## 5. Profit Before Income Tax

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

### (a) Finance costs

	Six months ended 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on the guaranteed senior notes issued	66,914	72,298
Bank and finance charges	5,515	11,020
Interest on bank loans wholly repayable within five years	202	399
	<u>72,631</u>	<u>83,717</u>

### (b) Staff costs

	Six months ended 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and other benefits	161,816	110,058
Employee share option benefits	61,324	17,017
Retirement benefits costs	1,334	802
	<u>224,474</u>	<u>127,877</u>

### (c) Other items

	Six months ended 31 December	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	(30,380)	(22,287)
Investment income	(3,213)	(37,628)
Amortization of deferred development costs	5,363	6,050
Amortization of prepaid premium for land leases, net of amount capitalized	28,597	17,311
Amortization of deferred expenditure, net of amount capitalized	17,904	9,035
Bad debts written (back)/off	(186)	3,743
Cost of inventories sold	565,818	422,525
Depreciation of property, plant and equipment, net of amount capitalized	68,255	60,932
Exchange loss, net	2,851	5,111
Operating lease expenses		
— land and buildings	57,809	37,779
— motor vehicles	51	51
Loss/(Gain) on disposals of property, plant and equipment	4,613	(31)
Share of associates' income tax	6,313	3,866
	<u>6,313</u>	<u>3,866</u>

## 6. Income Tax

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

		Six months ended 31 December	
		2006	2005
	Note	RMB'000	RMB'000
Current tax			
— PRC income tax	(a)	160	25
— Hong Kong profits tax	(b)	—	—
		<u>160</u>	<u>25</u>

(a) Fuzhou Chaoda Modern Agriculture Development Company Limited, the Group's principal subsidiary, was awarded as "State-Level Agricultural Leading Enterprise" of the nation by the central government of the PRC in December 2002. According to the circular Nong Jing Fa [2000] No. 8 and No. 10 jointly issued by Agricultural Ministry, State Development Planning Commission, State Economic & Trade Commission, Ministry of Finance, Ministry of Foreign Trade & Economic Cooperation, People's Bank of China, State Administration of Taxation, Securities Regulatory Commission and Chinese Supply and Marketing Cooperatives, domestic PRC State-Level Agricultural Leading Enterprises are entitled to certain tax benefits including full exemption of income tax. These tax benefits are also applied to other PRC subsidiaries engaged in agricultural business.

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

(b) No provision for Hong Kong profits tax has been made as there is no estimated assessable profits (Six months ended 31 December 2005: Nil) for the Company and its subsidiaries operating in Hong Kong during the period.

## 7. Dividends

	Six months ended 31 December	
	2006	2005
	RMB'000	RMB'000
Final dividend paid, of HK\$0.114 (2005: HK\$0.107) per ordinary share	<u>268,834</u>	<u>262,364</u>

At the annual general meeting held on 28 November 2006, final dividend for the year ended 30 June 2006 of HK\$0.114 (equivalent to RMB0.115) per ordinary share was declared. The dividend was paid during the period and the amount was reflected as appropriation of retained earnings for the six months ended 31 December 2006.

The directors do not recommend the payment of an interim dividend for the six months ended 31 December 2006 (Six months ended 31 December 2005: Nil).



## 8. Earnings Per Share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of RMB581,445,000 (Six months ended 31 December 2005: RMB581,326,000) and the weighted average number of 2,368,027,478 (31 December 2005: 2,363,549,598) ordinary shares in issue during the period.

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of RMB581,445,000 (Six months ended 31 December 2005: RMB581,326,000) and the weighted average number of 2,428,994,175 (31 December 2005: 2,404,985,247) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme. The convertible bonds outstanding during the period had an anti-dilutive effect on the basic earnings per share amount for the current period.

*Weighted average number of ordinary shares (diluted)*

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2006</b>	<b>2005</b>
	<b>Number of</b>	<b>Number of</b>
	<b>shares</b>	<b>shares</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>2,368,027,478</b>	2,363,549,598
Deemed issue of ordinary shares		
— share options	<b>60,966,697</b>	41,435,649
	<u>2,428,994,175</u>	<u>2,404,985,247</u>

## 9. Biological Assets

	<b>Fruit trees and tea trees</b>	<b>Livestock</b>	<b>Vegetables</b>	<b>Trees in plantation forest</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance as 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
<b>Balance as at 30 June 2006</b>	<b>373,781</b>	<b>33,196</b>	<b>452,587</b>	<b>24,729</b>	<b>884,293</b>
Additions	364,851	25,668	389,007	3,639	783,165
Decrease due to sales	(84,751)	(11,318)	(443,814)	—	(539,883)
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs	11,019	(16,849)	(72,039)	—	(77,869)
<b>Balance as at 31 December 2006</b>	<b>664,900</b>	<b>30,697</b>	<b>325,741</b>	<b>28,368</b>	<b>1,049,706</b>

Biological assets as at 30 June 2006 and 31 December 2006 are stated at fair values less estimated point-of-sale costs and are analyzed as follows:

	<b>Fruit trees and tea trees</b>	<b>Livestock</b>	<b>Vegetables</b>	<b>Trees in plantation forest</b>	<b>31 December 2006</b>	<b>30 June 2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current portion	664,900	30,697	—	28,368	<b>723,965</b>	431,706
Current portion	—	—	325,741	—	<b>325,741</b>	452,587
	<u>664,900</u>	<u>30,697</u>	<u>325,741</u>	<u>28,368</u>	<u><b>1,049,706</b></u>	<u>884,293</u>

- (a) The fair value of fruit trees and tea trees and livestock are determined by the directors with reference to the methodology and assumption adopted in the valuation for the year ended 30 June 2006.
- (b) 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.
- (c) 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 of the growing conditions and the period of plantation.

#### 10. Interest in Associates

	<i>Note</i>	<b>31 December 2006</b>	<b>30 June 2006</b>
		<i>RMB'000</i>	<i>RMB'000</i>
Share of net assets			
Balance as at 1 July		<b>593,394</b>	527,581
Share of associates' result for the period/year			
— profit before income tax		<b>49,814</b>	123,477
— income tax	(a)	<b>(6,313)</b>	(20,164)
Investment in an associate		<b>4,000</b>	—
Increase in equity interest in an associate company		—	30
Loss on deemed disposal of interest in associates		—	(37,530)
Dividend received		<b>(14,964)</b>	—
		<u><b>625,931</b></u>	<u>593,394</u>
Balance as at 31 December and 30 June		<b>625,931</b>	593,394
Amount due from an associate	(b)	<u><b>418</b></u>	<u>403</u>
		<u><b>626,349</b></u>	<u>593,797</u>

- (a) The amounts represent the share of PRC income tax charged on the assessable profits of Lucky Team Biotech Development (Hepu) Limited, a wholly owned subsidiary of Asian Citrus Holdings Limited (“Asian Citrus”) which is 39% (30 June 2006: 39%) indirectly owned by a wholly owned subsidiary of the Group.
- (b) Amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

(c) Particulars of the principal associate of the Group at 31 December 2006 are as follows:

<b>Company</b>	<b>Place of incorporation</b>	<b>Principal activity and place of operation</b>	<b>Particulars of issued and paid up capital</b>	<b>Interest held indirectly</b>
Asian Citrus*	Bermuda	Investment holding in Hong Kong	62,317,449 ordinary shares of HK\$0.1 each	39%

\* Listed on the Alternative Investment Market of London Stock Exchange

## 11. Accounts Receivable

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 customers' credit worthiness.

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

	<b>31 December 2006</b> <i>RMB'000</i>	30 June 2006 <i>RMB'000</i>
0 — 1 month	113,232	87,825
1 — 3 months	5,303	3,167
Over 3 months	8,082	5,621
	<u>126,617</u>	<u>96,613</u>

## 12. Accounts and Bills Payable

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

	<b>31 December 2006</b> <i>RMB'000</i>	30 June 2006 <i>RMB'000</i>
0 — 1 month	2,544	7,265
1 — 3 months	3,059	1,378
Over 3 months	2,444	2,202
	<u>8,047</u>	<u>10,845</u>

At the balance sheet date, bills payable amounting to RMB2,556,000 (30 June 2006: RMB4,139,000) were secured by a corporate guarantee provided by one of the subsidiaries.

## 13. Convertible Bonds

In May 2006, the Company issued HK\$1,344,000,000 (equivalent to RMB1,384,320,000 at the 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 Group.

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 issuing 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. Please refer to the Company's issuing circular dated 3 May 2006 for the details of the terms of the convertible bonds.

The presentation currency of the Group is Renminbi and the convertible bonds are denominated in Hong Kong dollars. 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 requires the convertible bonds to be carried at fair value at the balance sheet date and the changes in fair values are recognized in the income statement.

The movement of the fair value of the convertible bonds for the six months ended 31 December 2006 is set out as below:

	<i>RMB'000</i>
Proceeds of issue	1,384,320
Changes in fair value and charged to income statement	<u>5,135</u>
Balance at 30 June 2006	1,389,455
Changes in fair value and charged to income statement	101,504
Currency translation difference charged to exchange reserve	<u>(47,214)</u>
Balance at 31 December 2006	<u><u>1,443,745</u></u>

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\$5.01
Expected volatility	45%
Stock borrow cost	9%
Issuer's credit spread	2%
Expected dividend yield	2%

## **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend for the six months ended 31 December 2006 (2005: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Review**

For the six months ended 31 December 2006, Chaoda has achieved remarkable growth and financial results. Sales of crops has increased in volume from 510,907 tonnes to 688,213 tonnes, an increase of 35% as compared with the same period last year. Turnover and gross profit of the Group for the period amounted to approximately RMB1,696,583,000 and RMB1,130,765,000 respectively, representing an increase of 32% and 31% as compared with the same period last year.

For the current period ended 31 December 2006, profit attributable to shareholders amounted to RMB581,445,000 as a result of the loss arising from changes in fair value of biological assets and convertible bonds of RMB77,869,000 and RMB101,504,000 respectively. The Group's profit attributable to shareholders increased to RMB760,818,000 if these two non-cashflow items are excluded, represented an increase of 35% as compared with the same period of last year.

Operating expenses, consisting of selling and distribution expenses and general and administration expenses, have been controlled and maintained at a stable percentage of turnover. Selling and distribution expenses and general and administrative expenses for the six months ended 31 December 2006 were approximately 10% and 7% of turnover respectively, as compared with the same period last year of 10% and 6% respectively.

### **Production Bases**

Production land areas (excluding citrus farms owned by associates and mountain area) held by the Group in the PRC increased from 219,656 mu (14,644 hectares) as at 31 December 2005 to 314,556 mu (20,970 hectares) as at 31 December 2006, representing an increase of 43%. It also represented an increase of 13% as compared with 278,056 mu (18,537 hectares) as at 30 June 2006.

The weighted average production area for vegetables increased from 181,611 mu (12,107 hectares) as at 31 December 2005 to 257,011 mu (17,134 hectares) as at the same period in 2006, representing an increase of 42%. It also represented an increase of 27% as compared with 202,269 mu (13,485 hectares) as at 30 June 2006. The Group had, in total, operated 29 production bases in 14 different provinces and cities in the PRC.

### **Sales Performance**

Sales of crops for the six months ended 31 December 2006 accounted for 99% of total turnover, while sales of livestock accounted for 1%. Except that the supermarket chain operation has been reorganized and carried out by an associated company, there had not been any material change to the sales mix by product.

Domestic sales of crops represented 70% for the six months ended 31 December 2006 of which about 6% of the sales was made to institutional buyers. Export sales of crops took up the remaining 30%. There had not been any material change to the sales mix by market.

The gross profit margin in the sales of crops, being the principal business of the Group, was 67%, a slight decrease as compared with the same period last year of 69%. The overall gross profit margin of the Group maintained at its high level of 67%, same as last year.

### **Other Operating Data**

For the six months ended 31 December 2006, the other operating data relating to the Group's principal business of growing and sales of crops include the vegetable yield per mu of 2.59 tonnes and the vegetable yield per mu per harvest of 1.77 tonnes as compared with the same period last year of 2.59 tonnes and 1.79 tonnes respectively. The average sales unit price per kg was RMB2.44 as compared with

the same period last year of RMB2.41. There had not been any material change in other operating data during the period under review.

## **STAFF AND REMUNERATION POLICIES**

As at 31 December 2006, the Group employed approximately 16,090 employees, out of which 14,635 were workers on the Group's farmlands. Employees' salaries are determined at a competitive level. The remuneration package of the employees is determined by reference to their respective positions, duties and responsibilities in the Group. Such package includes basic salaries, discretionary bonus and share options. Other employees' benefits including pensions, insurance, education subsidies and training programmes.

## **PROSPECTS**

In 2006, China's total vegetable production area was 18.18 million hectares, up 0.46 million hectares or 2.6% from last year. The annual vegetable yield was 582.33 million tons, up 3.2% from last year. The general price level of vegetables was slightly higher than in 2005 with normal seasonality. Vegetable exports recorded steady growth both in quantity and sales value. Customs statistics show that exports of raw and processed vegetables in 2006 totaled 7.32 million tons, up 7.7% over the preceding year, and sales totaled US\$5.42 billion, up 21% over the preceding year. Japan remained a primary destination of vegetable exports with the volume decreased by 2.2% year-on-year, while exports to other countries such as ASEAN countries, the United States, South Korea and Russia increased rapidly.

Chinese government stepped up support for agriculture and increased government spendings significantly. In January 2007, the government issued 'Opinions of the State Council on the Development of Modern Agriculture and New Socialist Countryside'. This is the fourth consecutive year in which the government issued the annual 'No. 1 document' on agriculture related issues since year 2004. It is the first time the government stated that building a modern agriculture is the primary task in the development of a new socialist countryside. Modern agriculture differs from traditional and state-planned agriculture, as it is based on a market economy and a modern industrialized system that integrates technology, production, management and distribution.

The legal, market and social environments of the agricultural industry are improving continuously. The "Law on Quality and Safety of Agricultural Products" was introduced and became effective in November 2006. It provides a legal framework for the quality and safety issues of agriculture products and protects consumers' rights and interests. The Law will change the emphasis from quantity to quality and help make Chinese products more competitive globally.

We believe China's agriculture industry is at a stage of development and consolidation. The government will support agricultural enterprises to lead the development of the industry, and help increase the income of farmers. The fragmented industry operated by small individual farmers will gradually develop into a modernized industry represented by corporations. As a national leading agricultural enterprise, Chaoda will seize the opportunity and further develop its business model of "Corporate + Bases + Farmers". Chaoda will continue to expand its production bases mainly in Northeast China, North China, Yangtze River area and South China, and develop complementary production bases in other areas with regard to product varieties, seasonality, and markets. The Group will continue to grow its core vegetable and fruit

business and prudently develop other businesses such as livestock, forestry, food processing and trading together with the leasing of grassland and forestry land in order to achieve sustained growth.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2006.

## **AUDIT COMMITTEE**

The Audit Committee comprises three independent non-executive directors, namely, Mr. Tam Ching Ho (as Chairman), Mr. Fung Chi Kin and Ms. Luan Yue Wen.

The unaudited interim financial statements of the Group for the six months ended 31 December 2006 has been reviewed by the Audit Committee and the independent certified public accountants. The Audit Committee has also reviewed with the Company's management, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters.

## **CODE OF CORPORATE GOVERNANCE PRACTICES**

In the opinion of the directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule") throughout the six months ended 31 December 2006, except for the deviations described below:

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate. Taking into account of the necessity to continue the implementation of business plans, the Board considers that the present arrangement for the chairman to hold the office of the chief executive officer is beneficial to the Company and the shareholders as a whole. The chairman has definite responsibility to provide the whole Board with all information related to the discharge of the Board's duties. The Company continuously enhances the communication with the directors in terms of quality and timeliness.

Under code provision B.1.4, the Company should include the terms of reference of the Remuneration Committee on its website. The terms of reference of the Remuneration Committee are made available upon request and will be posted on the website of the Company.

Under code provision C.3.4, the Audit Committee should make available its terms of reference. The terms of reference of the Audit Committee are under review in accordance with code provisions. Once the review is completed, the terms of reference will be posted on the website of the Company.

Under code provision E.1.2, the chairman should attend the annual general meeting. Due to other business engagement, Mr. Kwok Ho, the Chairman, was not able to attend the annual general meeting of the Company held on 28 November 2006.

The Company endeavours to maintain a high corporate governance level and to enhance its transparency. The Company decides to strengthen communications with its shareholders and investors so as to ensure every major decision will be accountable to the shareholders and will be in the interest of all shareholders.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “Model Code”). Upon enquiry by the Company, all of the directors have confirmed that they have complied with the standards set out in the Model Code during the six months ended 31 December 2006.

## **PUBLICATION OF INTERIM RESULTS ON THE WEBSITES**

This results announcement is published on the websites of the Company ([www.irasia.com/listco/hk/chaoda](http://www.irasia.com/listco/hk/chaoda)) and The Stock Exchange of Hong Kong Limited ([www.hkex.com.hk](http://www.hkex.com.hk)) . The interim report will be dispatched to the shareholders of the Company and made available on the above websites as soon as practicable.

On behalf of the Board  
**Kwok Ho**  
*Chairman*

Hong Kong, 22 March 2007

*As of the date of this announcement, the board of directors of the Company comprises:*

*Executive directors: Mr. Kwok Ho, Mr. Ip Chi Ming, Dr. Lee Yan, Ms. Wong Hip Ying, Mr. Fong Jao, Mr. Chen Jun Hua, Mr. Chan Chi Po, Andy; and*

*Independent non-executive directors: Mr. Fung Chi Kin, Mr. Tam Ching Ho, Professor Lin Shun Quan and Ms. Luan Yue Wen.*