FINANCIAL REVIEW

The Group's turnover and profits attributable to shareholders for the year ended 30 June 2003 was approximately RMB1,485,307,000 and RMB725,134,000 respectively, representing an increase of 28.9% and 16.6% respectively, as compared to those of last year.

In the winter of 2002, China experienced the severest cold in the recent 50-odd years. There were frosts and snows even in Guangdong and Fujian Provinces. Large proportions of crops seedlings were damaged or their growth cycle was extended for more than 20 days. It affected the quantity of the crops yield of all the market players of agriculture industry. In the spring of 2003, the outbreak of SARS has adversely affected the operation of restaurants and the catering industry, which in turn affected their demand on our produce. It also brought transportation to a halt, thus dragging exports down. However, by adopting decisive measures and leveraging on our strong adaptability, we took various measures such as reallocation of produce to supermarkets and retail markets to mitigate our loss in sales. We also used our e-commerce model so-called the "Significant Customer Channel" to keep contact with our inter-provinces or overseas customers and made sales to them. As such, we have achieved such a fair results for the year despite the challenging business environment.

Turnover for the year increased by 28.9% from last year's figure of RMB1,152,133,000. The increase in turnover was fuelled by 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 areas, the weighted-average area of 97,678 mu for the year represents an increase of 31.0% from 74,556 mu for the last year. After enhancement work performed on the previously used land, the productivity is better improved and the sales volume increases accordingly. The Group's total farmland areas (excluding the citrus farm owned by an associated company) amounted to 155,315 mu as at 30 June 2003, representing an increase of 28.7% from 120,725 mu as at the end of last year.

Sales of crops for the year accounted for 91.5% of total turnover, while sales of livestock, supermarkets, ancillary food products and export trading account for 1.6%, 5.4% and 1.5% respectively. Apart from the supermarket business, there has not been any material change to the sales mix by product.

Domestic sales of crops represented 68% 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 PRC trading companies) took up the remaining 32%. There has not been any material change to the sales mix by market.

The Group's principal business, sales of crops attained over 70% in gross profit margin. Overall gross profit margin dropped from 73.9% last year to 66.9% this year. This is attributable to the change in sales mix arising from the newly established businesses (supermarket and trading which normally has a much lower margin than that of the sales of crops).

The percentage of selling and distribution expenses, as well as general and administrative expenses for the year amounted to 9.4% and 6.3% of turnover respectively, as compared to percentage levels of 9.0% and 4.9% respectively last year. The percentage change in the selling and distribution expenses is not material. While there was an increase in the general and administrative expenses which is attributable to the corresponding increases in the depreciation and amortization charge of assets incurred by the significant capital investment made by Chaoda over the years.

The pre-tax profit margin for the year was 48.9%, which decreased from 58.8% in the previous year by 9.9%. The net profit margin was 48.8% as compared to last year's figure of 54.0%. The decline in net profit margin is a result of the change in sales mix arising from the newly established businesses (supermarket and trading which normally has a much lower margin than that of the sales of crops), and the corresponding increases in the depreciation and amortization charge of assets incurred by the significant capital investment made by Chaoda over the years respectively.

CHARGE ON ASSETS

As at 30 June 2003, the Group's interests in certain subsidiaries, amount of HK$250,000,000 and US$45,000,000 due from subsidiaries, and a deposit of HK$20,000,000 are pledged as security for banking facilities.

STAFF AND REMUNERATION POLICIES

As at 30 June 2003, the Group employed 10,897 staff members, of which 8,319 are workers on the Group's farmlands. Employees' salaries are determined at a competitive level, other staff benefits include the Hong Kong Mandatory Provident Fund, insurance, education subsidies, training programmes and share option scheme.

A share option scheme (the "Scheme") was adopted pursuant to a resolution passed at the extraordinary general meeting of the Company held on 19 June 2002. During the year ended 30 June 2003, options in respect of 145,200,000 shares were granted to the relevant participants under the Scheme.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

In January 2002, the Company entered into an agreement (the "Loan Agreement") relating to a loan facility of up to US$50,000,000 (the "Loan") with, inter alios, a syndicate of banks. The interest rate is at the London Inter-Bank Offered Rate in relation to the relevant interest period plus 1.875% per annum. Up to 30 June 2003, the loan of US$50,000,000 (equivalent to RMB412,932,000) was drawn down by the Company. It also obtained short-term bank loans amounting to RMB50,000,000 at fixed interest rates of 4.536% to 5.31%. Subsequently, the bank loan of US$50,000,000 was early fully repaid in September 2003.

As at 30 June 2003, the Group had bank and cash balances together with long-term bank deposits amounting to RMB867,286,000, of which RMB212,025,000 were denominated in Renminbi, the remaining RMB655,261,000 were denominated in foreign currencies, predominately Hong Kong dollars and United States dollars. Since the exchange rate fluctuations between the Hong Kong dollar or United States dollar and Renminbi are immaterial, the foreign exchange risk is immaterial and no hedging has been carried out.

As at 30 June 2003, the Group's gearing ratio was 13.2%. This is based on the division of loans by total assets. Additionally, the Group's current ratio was 1.8 times, reflecting the presence of sufficient financial resources.

As at 30 June 2003, the Group had outstanding capital commitments amounting to RMB455,814,000, of which, commitments of RMB97,138,000 are contracted but not provided for, the remaining commitments of RMB358,676,000 have been authorised but not contracted for, in respect of the purchase of fixed assets and research and development expenditure. As at 30 June 2003, the Group did not have any material contingent liabilities.

USE OF SHARE ISSUE PROCEEDS

As at 1 July 2002, the balance of unused share issue proceeds amounts to approximately RMB640,841,000. For the year ended 30 June 2003, the Group had applied approximately RMB165,421,000 for the construction of irrigation systems and infrastructure facilities in Nanjing and Beijing production bases; and approximately RMB3,028,000 for the expansion of retail network in Shanghai.

As at 30 June 2003, the net proceeds of RMB472,392,000 which have not yet been utilised in the previous years will continue to be used for the construction of farmlands, irrigation systems and infrastructure facilities and expansion of retail network, without limitation to Nanjing and Beijing production bases; or for the expansion of retail network in Shanghai. The above-mentioned unused proceeds are kept in banks as short-term deposits.