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 pre-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.

Management Discussion and Analysis

CHARGE ON ASSET

As at 30 June 2005, corporate guarantees of one of the PRC subsidiaries of the Group were executed as the security for short-term loans.

A fixed deposit of US$60,500,000 (equivalent to RMB499,648,000) of the Company was pledged to secure a loan facility of up to RMB450,000,000 (2004: Nil) and will be due in March 2006.

Shares of certain subsidiaries of the Group were pledged for the issuance of US$225,000,000 7.75% guaranteed senior notes due on 8 February 2010.

Besides, the Company has entered into an agreement relating to a loan facility of up to US$21,000,000 (RMB173,431,440) (the "Loan") on 30 April 2004 with a syndicate of banks. The Loan was secured by the shares of certain subsidiaries and will be repayable within 36 months after the drawdown date. Subsequently, the Loan was fully repaid early on 24 January 2005.

REMUNERATION POLICIES

Remuneration Policy for Employees

As at 30 June 2005, the Group employed about 13,175 employees, of which 11,444 were workers on the Group's farmland. Employees' salaries are determined at a competitive level. They are eligible for various components of total remuneration by reference to their duties and responsibilities with the Group and the market rate. These components include basic salaries discretionary bonus and share option. Other employee benefits mainly include pension arrangements, insurance, education subsidies and training programmes.

Remuneration Policy for Executive Directors

The executive directors' salaries are determined at a competitive level. They are eligible for various components of total remuneration by reference to their duties and responsibilities with the Group and the market rate. These components include basic salaries, discretionary bonus and share option. The basic salaries will be reviewed by the Board from time to time.

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.

The Group does not have, has never had, any long-term incentive schemes.

Remuneration Policy for Non-Executive Directors

The remuneration, comprising directors' fee, of non-executive directors is determined by the Board from time to time by reference to their duties and responsibilities with the Company and the market rate. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties.

Further details of remuneration of executive directors and non-executive directors are set out in note 15 to the financial statements.

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2005, the Group had cash and bank balances amounting to RMB1,948,971,000, of which RMB342,891,000 were denominated in Renminbi, while the remaining RMB1,606,080,000 were denominated in foreign currencies, predominately Hong Kong dollars and United States dollars. Since the exchange rate fluctuations between Hong Kong dollars or United States dollars and Renminbi are immaterial, the foreign exchange risk is immaterial and no hedging has been carried out by the Group.

As at 30 June 2005, the Group's gearing ratio (debt to equity) was 32%, which is calculated on the basis of bank loans and guaranteed senior notes over total equity. And the Group's current ratio was 21 times, reflecting sufficient financial resources.

As at 30 June 2005, the Group had outstanding capital commitments amounting to RMB483,409,000 in respect of the purchase of fixed assets, research and development expenditures, the purchase of land use rights and obtain farmland, of which commitments of RMB301,787,000 were contracted but not provided for, while the remaining commitments of RMB181,622,000 had been authorised but not contracted. As at 30 June 2005, the Group did not have any material contingent liabilities.

USE OF SHARE ISSUE PROCEEDS

As at 15 January 2004, the Company had raised funds of approximately HK$683,000,000 (approximately equivalent to RMB723,160,400) by placing 280,000,000 ordinary shares at HK$2.50 per share (the "Share Issue"). It was the intention of the Group to use approximately HK$50,000,000 (approximately equivalent to RMB52,940,000) of the net proceeds for land leasing costs in connection with the expansion of the Group's production bases, to use approximately HK$350,000,000 (approximately equivalent to RMB370,580,000) of such net proceeds for the construction of irrigation systems and infrastructure facilities at the Group's production bases; and approximately HK$283,000,000 (approximately equivalent to RMB299,640,400) of such net proceeds for general working capital.

As at 1 July 2004, the balance of unused share issue proceeds amounted to approximately HK$633,000,000 (approximately equivalent to RMB670,220,400).

As at 30 June 2005, the Group had fully utilized the aforementioned unused share proceeds for the purposes as intended in the Share Issue.