

Management Discussion and Analysis

Financial Review

For the year ended 30 June 2006, the Group's turnover and profits attributable to shareholders were approximately RMB2,797,707,000 and RMB1,358,235,000 respectively, representing an increase of 25% and 5% as compared with last year. The main growth driver was the expansion of production bases. Chaoda achieved impressive growth and financial results. Sales of crops has increased in volume from 892,000 tonnes last year to 1,118,000 tonnes this year. The Group has continued its sales to wholesale market, institutional clients, retail and export sales, accounting for 63%, 6%, 1% and 30% of the Group's sales respectively.

Sales of crops for the year accounted for 96% of total turnover, while sales of livestock and supermarkets chain operation accounted for 2% and 2% respectively. Sales of crops has been increased slightly in the overall sales mix by product.

Domestic sales of crops represented 70% of the total turnover for the year while export sales of crops 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 69%. The overall gross profit margin was slightly increase to 68% as compared to 67% of last year. It was attributable to higher percentage of segment revenue generating from the sales of crops, the Group's principal business, in total turnover and the reduction in supermarkets chain operation that are of lower gross profit margin.

Operating expenses remained stable as a percentage of total sales. Selling and distribution expenses and general and administrative expenses, collectively the operating expenses, for the year ended 30 June 2006 represented approximately 10.5% and 5.5% respectively, as compared with last year of 10.2% and 5.8%.

Charge on Asset

At 30 June 2006, the Group has total banking facilities amounted to RMB65,000,000 in which RMB10,000,000 of bank loans and RMB4,139,000 of bills payable have been utilized. These banking facilities were secured by a corporate guarantee provided by one of the subsidiaries.

At 30 June 2005, the Group had total banking facilities amounted to RMB530,000,000 in which RMB16,890,000 of bank loans had been utilized. These banking facilities were secured by a corporate guarantee provided by one of the subsidiaries and a fixed deposit of US\$60,500,000 (equivalent to RMB499,648,000) of the Company.

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

1. US\$225,000,000 7.75% guaranteed senior notes due on 8 February 2010;
2. HK\$1,344,000,000 zero coupon convertible bonds due on 8 May 2011.

7.75% Guaranteed Senior Notes due 2010

Details of the Guaranteed Senior Notes are set out in note 31 to the financial statements.

Management Discussion and Analysis *(Continued)*

HK\$1,344,000,000 Zero Coupon Convertible Bonds due 2011

In May 2006, the Company issued HK\$1,344,000,000 (equivalent to RMB1,384,320,000) 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. Details of the convertible bonds are set out in note 32 to the financial statements.

During the year ended 30 June 2006, no convertible bonds were converted into conversion shares by the bondholders.

Remuneration Policies

Remuneration Policy for Employees

As at 30 June 2006, the Group employed about 14,384 employees, of which 12,612 were workers on the Group's farmlands. 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 Remuneration Committee is authorized by the Board to make their proposals relating to the remuneration of executive directors.

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 and a resolution passed for the refreshment of the Scheme Mandate at the extraordinary general meeting of the Company held on 14 February 2006. As at 30 June 2006, options in respect of 192,477,500 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 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.



Liquidity, Financial Resources and Capital Structure

As at 30 June 2006, the Group had cash and bank balances amounting to RMB2,613,723,000, of which RMB748,223,000 were denominated in Renminbi, while the remaining RMB1,865,500,000 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 2006, the Group's gearing ratio (debt to equity) was 45%, which is calculated on the basis of bank loans, guaranteed senior notes and convertible bonds over total equity. And the Group's current ratio was 20 times, reflecting sufficient financial resources.

As at 30 June 2006, the Group had outstanding capital commitments amounting to RMB106,754,000, in respect of the purchase of fixed assets, research and development expenditures, premium payment for land leases. As at 30 June 2006, the Group did not have any material contingent liabilities.