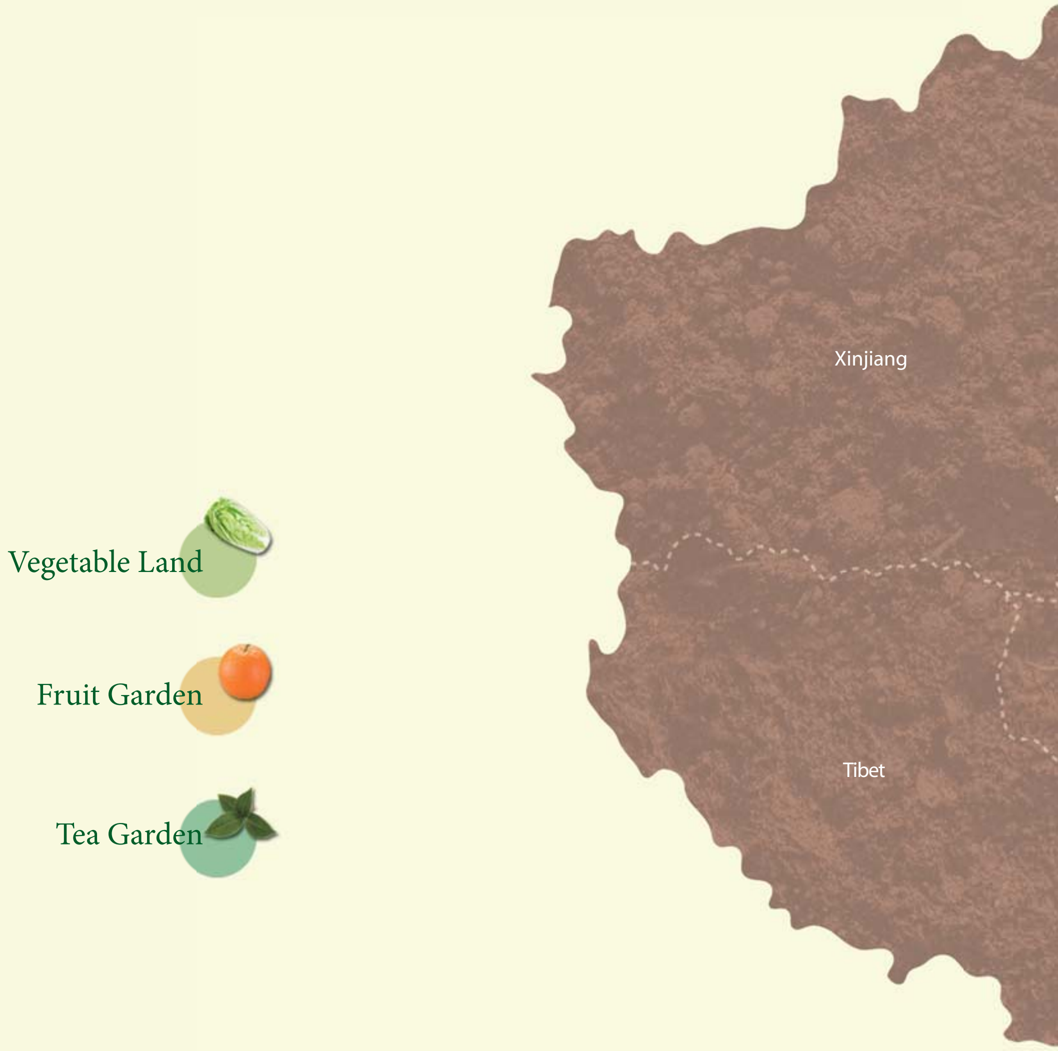
# CHAODA MODERN AGRICULTURE (HOLDINGS) LIMITED

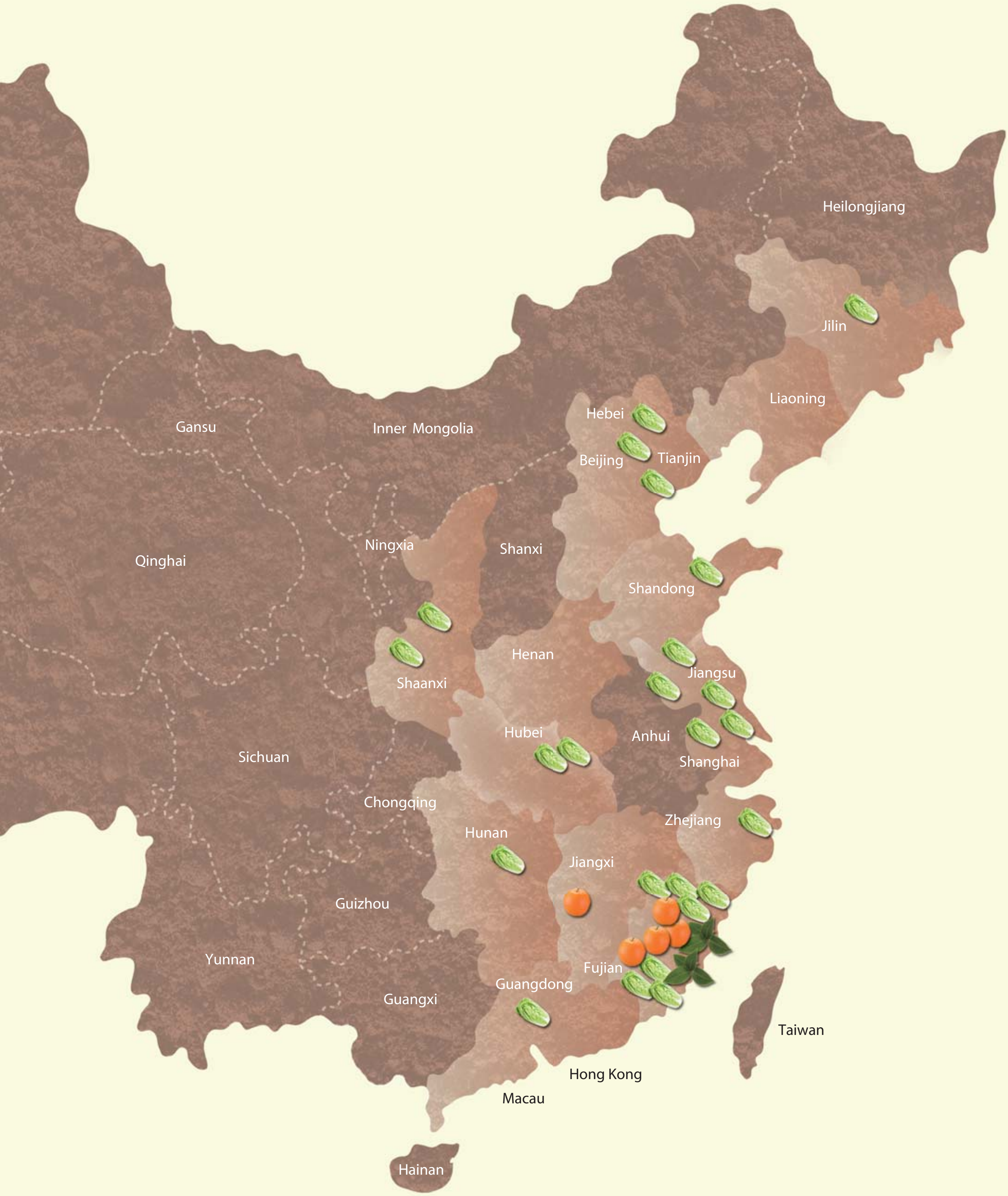
(Incorporated in the Cayman Islands with limited liability)

**(Stock Code: 682)**

# ANNUAL REPORT 2009/2010

# Agricultural Production Bases




Heilongjiang
Jilin
Liaoning
Hebei
Beijing
Tianjin
Gansu
Inner Mongolia
Ningxia
Shanxi
Qinghai
Shandong
Shaanxi
Henan
Jiangsu
Hubei
Anhui
Shanghai
Sichuan
Chongqing
Zhejiang
Hunan
Jiangxi
Guizhou
Yunnan
Fujian
Guangdong
Guangxi
Taiwan
Hong Kong
Macau
Hainan





Chaoda Modern Agriculture (Holdings) Limited




# Content

Chaoda Modern Agriculture (Holdings) Limited
Annual Report 2009/2010

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Kwok Ho *(Chairman)*
Dr. Li Yan
Ms. Huang Xie Ying
Mr. Kuang Qiao
Mr. Chen Jun Hua
Mr. Chan Chi Po Andy *(Chief Financial Officer)*

### Non-executive Director

Mr. Ip Chi Ming

### Independent Non-executive Directors

Mr. Fung Chi Kin
Mr. Tam Ching Ho
Professor Lin Shun Quan
Ms. Luan Yue Wen

## AUDIT COMMITTEE

Mr. Tam Ching Ho *(Chairman)*
Mr. Fung Chi Kin
Ms. Luan Yue Wen

## REMUNERATION COMMITTEE

Mr. Fung Chi Kin *(Chairman)*
Mr. Tam Ching Ho
Ms. Luan Yue Wen
Mr. Chen Jun Hua

## AUTHORISED REPRESENTATIVES

Mr. Kwok Ho
Mr. Chan Chi Po Andy

## QUALIFIED ACCOUNTANT

Mr. Chan Chi Po Andy

## COMPANY SECRETARY

Ms. Yeung Pik Chun Colana

## STOCK CODE

682

## AUDITORS

Grant Thornton
*Certified Public Accountants*

## PRINCIPAL BANKS

Bank of China (Hong Kong) Limited
CITIC Bank International Limited
China Merchants Bank
China CITIC Bank
Industrial Bank Co., Ltd.
China Everbright Bank

## REGISTERED OFFICE

P.O. Box 309, Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2705, 27th Floor
China Resources Building
26 Harbour Road
Wanchai, Hong Kong

## SHARE REGISTRAR AND TRANSFER OFFICE

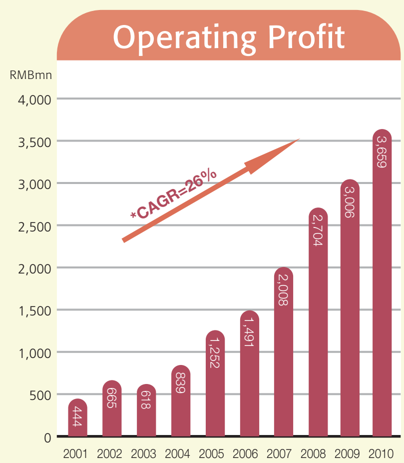
Tricor Abacus Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

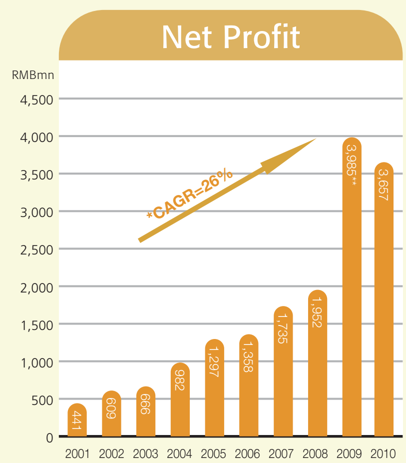
## WEBSITE

http://www.chaoda.com.hk
http://www.irasia.com/listco/hk/chaoda

# Financial Highlights

| | 2010 | 2009 | Increase/ (Decrease) |
|---|---|---|---|
| **OPERATING RESULTS** | | | |
| Turnover (RMB'000) | **6,963,717** | 6,126,818 | 14% |
| Gross Profit (RMB'000) | **4,577,364** | 4,150,650 | 10% |
| Profit for the year attributable to the owners of the Company (RMB'000) | **3,658,874** | 3,986,381** | (8%) |
| Earnings per share | | | |
| — Basic | **RMB1.18** | RMB1.55 | (24%) |
| — Diluted | **RMB1.15** | RMB1.05 | 9% |
| Profit for the year attributable to the owners of the Company (RMB'000) (excluding non-cash items) | **3,505,394** | 2,787,660 | 26% |
| Earnings per share | | | |
| — Basic (excluding non-cash items) | **RMB1.13** | RMB1.08 | 5% |
| — Diluted (excluding non-cash items) | **RMB1.10** | RMB1.05 | 5% |
| **FINANCIAL RATIOS** | | | |
| Gross profit margin | **66%** | 68% | |
| Net profit margin | **53%** | 65%** | |
| Debt to equity ratio | **0.1%** | 9% | |
| Current ratio (Times) | **16.6** | 2.8 | |
| Trade receivables turnover (Days) | **22** | 23 | |
| **OPERATING DATA** | | | |
| Total production base area (Mu) | **664,225** | 578,475 | 15% |
| Weighted average production base area for vegetables (Mu) | **497,995** | 441,520 | 13% |
| Sales volume of crops (Tonnes) | **2,774,712** | 2,507,124 | 11% |
| Harvest ratio for vegetables (Times of harvest/Year) | **2.92** | 2.98 | |
| Annual yield per mu for vegetables (Tonnes) | **5.46** | 5.60 | |
| Yield per harvest for vegetables (Tonnes/Mu) | **1.87** | 1.88 | |


* CAGR: Compound Annual Growth Rate

** Including an exceptional item of gain on redemption of convertible bonds during the financial year ended 30 June 2009

# Chairman’s Statement

**I am pleased to present the annual results for Chaoda Modern Agriculture (Holdings) Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group” or “Chaoda”) for the financial year ended 30 June 2010. I would also represent the Board of Directors of the Company (the “Board”) and employees of the Group to express greatest gratitude to all our shareholders.**

## INDUSTRY AND BUSINESS REVIEW

During the financial year under review, the vegetable market was largely stable. In 2009, according to Ministry of Agriculture statistics, 273 million mu were planted in vegetables, a 1.8% increase over last year. The total output of vegetables was 602 million tonnes, up 4.7%. In terms of both cultivation area and output, China ranked first globally, accounting for 43% of global cultivation area of vegetables and 49% of global output respectively.

The government has maintained a number of preferential policies aiming at supporting agricultural development and bringing to an end of the backwardness of rural areas. For the seventh consecutive year, the annual “Number One” document focused on the “Three Rural Issues” (Agricultural Industry, Rural Areas and Farmers). This document, released in January 2010 by the Central Committee of the Chinese Communist Party and the State Council, emphasised the coordination of urban and rural development to strengthen the foundation of agricultural and rural development. The government has continued to increase its fiscal allocation to agriculture. In 2009, the central government allocated RMB725.3 billion for programmes for agricultural development. The investment is expected to increase by 12.8% in 2010 to RMB818.3 billion.

During the financial year under review, the Group’s business remained stable. Its production base area was expanded by 15% to 664,225 mu (44,282 hectares). Sales of crops increased by 11% to 2,774,712 tonnes. Turnover and profit for the year attributable to the owners of the Company (excluding changes in fair value of biological assets and gain on redemption of convertible bonds) were RMB6,964 million and RMB3,505 million, up 14% and 26% respectively. In addition to these sound results, the value of Chaoda’s brand continues to grow. The World Brand Laboratory ranked “Chaoda” 83rd in its 2010 ranking of “China’s 500 Most Valuable Brands”. Its brand value increased during the year by RMB1,565 million to RMB9,638 million according to the institute. In July 2010, the Chinese edition of *Fortune* magazine included Chaoda in its “China’s Top 500 Companies List”. Chaoda ranked fourth in the category for agriculture, forestry, animal husbandry and fisheries industry, and number 315 overall. In March 2010, Chaoda retained its designation of “State-Level Dragon Head Leading Agricultural Enterprise”, after passing a review by eight ministries of State including the Ministry of Agriculture. It helps maintain the competitive strength of the Group.

"Turnover and profit from operations reached **RMB6,964 million** and **RMB3,569 million**, up **14%** and **19%** respectively"

## PROSPECTS AND DEVELOPMENT STRATEGY

### Core Business

China has entered a crucial stage in the transformation of traditional agriculture as part of its drive for agricultural modernisation. The government attaches great importance to scientific and technological advances in agriculture. In October 2009, during the "National Agricultural Technology Innovation and Promotion Conference" in Nanjing, Jiangsu Province, over 300 agricultural government officials and agricultural experts from 31 provinces, autonomous regions and municipalities visited Chaoda's Yangzhou production base. The officials and experts praised Chaoda's accomplishments in terms of raising the income levels of farmers, based on its business model of "Company + Production Bases + Farmers". We believe that China's agricultural industry is undergoing an important and historical transformation. We will seize this historic opportunity and continue to focus on our core business — the cultivation and distribution of vegetables and fruits. We will accelerate the land aggregation and expansion speed in four key areas, including Northeast China, North China, the Yangtze River region and South China. We will also seek complementary production bases in other areas to acquire quality land resources. As a leader in the vegetable cultivation industry, we will further boost the industrialisation of vegetable production, and help farmers get rich through modern agriculture.

### Quality Control

Agricultural standardisation is fundamental to agricultural modernisation and food safety, as well as key to ensuring the quality and safety of agricultural products. The Group will continue to learn from the experience of supplying vegetables to the 2008 Beijing Olympics, when we ran a dedicated programme using standardised production technology and quality control. The Group is creating a management system to spread these lessons and technologies throughout the production bases in order to strengthen quality control and safety standard, and enhance competitiveness.

### Brand Building

The Group has been shifting its branding strategy from "corporate focused" to "product focused". Chaoda will build several product brands based on specific traits, high quality, and market appeal, by integrating brand resources and concentrating brand impact. The Group will integrate the brand management concept into every step of production, processing and distribution, especially with regard to product standardisation, and will implement a market expansion strategy based on product brands. The aim is to translate brand value into profitability and industrial competitiveness, to maximise the profit of the Group.

### Technological Innovation

The Group will continue to promote innovation and applications of agricultural technology. To strengthen business management and operation, it will enhance the level of using technology in agriculture, mechanisation of the work process, and the use of information technology in production. These will improve the Group's competitive advantages in agricultural technology.

## CORPORATE SOCIAL RESPONSIBILITY

The Group pays great attention to its social responsibilities and the importance of contributing to society while developing its business and creating value for shareholders. As a leader in China's agricultural industry, the Group sees it as one of its responsibilities to increase farmer's incomes and help them in difficult times.

In September 2009, the strongest typhoon in 50 years hit Taiwan. "Typhoon Morakot" severely damaged Taiwan's agriculture, forestry, animal husbandry and fisheries industries. The Group donated RMB1.5 million for disaster relief through the Association for Relations Across the Taiwan Straits and the Straits Agriculture Exchange Association. In April 2010, after a massive earthquake occurred in Yushu, Qinghai Province, Chaoda donated RMB1 million for disaster relief to care the livelihood of the public. The Group also donated approximately RMB500,000 to other organisations. In June 2010, exceptional flooding struck the northern and western areas of Fujian. In July, Chaoda donated RMB1.5 million through the Fuzhou Charity Federation and the Fujian Province Youth Development Foundation for flood relief. I also personally donated RMB10 million to help rehabilitate suffered areas of northern and western Fujian. The fund was used to re-build agricultural infrastructure and restore agricultural production in the affected regions.

I want to observe that the Group's large-scale vegetable cultivation model is aligned with the development pattern of China's agricultural industry. The ecological farming method we adopt is a natural and sustainable development model. It not only protects and improves the environment but also satisfies the need for a healthy lifestyle. This model has broader prospects in the long term. Based on strong government support and a favorable market environment, my team and I will embrace new opportunities, and make every effort to ensure the Group's rapid growth, creating more value for shareholders.

**Kwok Ho**
*Chairman*

18 October 2010

# Management Discussion and Analysis

## BUSINESS REVIEW

During the financial year under review, the Group focused on integrating internal resources for upstream and downstream sectors where it was particularly strong. In a bid to further drive positive interaction within the industrial chain and in accordance with the principles of "resource integration, structural optimisation, synergies through unity and expedited development", it continued to foster its core competitiveness on all fronts under a well-defined business positioning while taking into account conditions in the external environment and the characteristics of the industry's development.

## AGRICULTURAL LAND

High quality crops can only be grown under favourable conditions including land, water sources, climate and the surrounding environment. The Group has always applied stringent standards in the choice of production bases and only locations with the right conditions will be selected as Chaoda's production bases. Acknowledging that vegetable cultivation is highly susceptible to climatic conditions, Chaoda has built a strategic network of production bases spanning across the country from the North to the South, so that highland and lowland bases can complement each other to enable a steady supply throughout the year. Such efforts mitigate the impact of adverse weather and finally, maximise the utilisation of resources in vegetable cultivation.

The Group keeps on constructing and enhancing its physical infrastructure and equipment such as spraying and dripping irrigation systems, ditches and canals, greenhouses, crop shelters and agricultural machinery. Instead of passively submitting to natural conditions, we resort to advanced technologies and equipments to strengthen the ability of countering natural calamities. During the first half of 2010, China was subject to abnormal weather conditions marred by droughts and floods, however, thanks to its comprehensive facilities and systems that effectively facilitated irrigation during arid season and discharged water in times of flood, Chaoda was able to reduce the impact of natural calamities and safeguard its productivity.

It is our goal to deliver superb quality with high efficiency. The Group consolidated its technical strengths to assure that crops are grown in an optimal environment by applying sound methods to suitable seeds and integrating the use of machinery with agricultural techniques. Combining large-scale cultivation, standardised production, commercialised processes and brand effect in sales and industrialised operations, our overall production efficiency has been improved and Chaoda's business scale and market competitiveness have been enhanced, enabling the Group to remain at the forefront of the industry's development.

As at 30 June 2010, the Group operated 31 production bases in 13 different provinces and cities in China. The total production base area, including vegetable land, tea garden and fruit garden, amounted to 664,225 mu (44,282 hectares), an increase of 15% when compared with 578,475 mu (38,565 hectares) as at the end of the previous financial year. The weighted average production base area for vegetables for this financial year was 497,995 mu (33,200 hectares), an increase of 13% when compared with 441,520 mu (29,435 hectares) for the previous financial year.

## SALES OF CROPS

In addition to selecting regions with proven advantages in climate and resources as production bases, the Group continued to engage in crops cultivation as its core business in a favourable environment fostered by the government's strong support for agricultural development. Leveraging our invaluable experience as a key vegetable supplier for the 2008 Beijing Olympics, we promoted on all fronts of our operations the type of quality control management adopted at the Olympics, enhanced our quality standardisation management system and advanced our brand building efforts, as we launched mass production of quality crops.

For the financial year under review, sales of crop contributed to 99% of the Group's turnover with a sales volume of 2,774,712 tonnes, increased by 11% when compared with 2,507,124 tonnes in the previous financial year. The annual yield for vegetables was 5.46 tonnes per mu (2009: 5.6 tonnes per mu). The yield per mu per harvest for vegetables was 1.87 tonnes (2009: 1.88 tonnes per mu per harvest). The slight decrease in the yield was mainly caused by the impact of abnormal weather conditions and the change in product mix. Another favourable factor contributing to the growth in the revenue of crop sales was that the average selling price for crops rose by 3% to RMB2.49 per kg (2009: RMB2.42 per kg). Revenue from the sales of crops for this financial year increased by 14% to RMB6,903 million (2009: RMB6,079 million).

Given the stringent quality standard system under which they have been grown, crops produced by the Group are well recognised for their quality and vastly popular in domestic and overseas markets. During the financial year under review, approximately 74% of our crops were sold in the domestic market, among which 67% were sold to wholesale buyers and 7% to institutional buyers. Indirect export accounted for 26% of our sales.

## BUSINESS OVERVIEW

### Technological innovations focused on effectiveness

Chaoda's technology research centre has been set up since the Group's incorporation, as Chaoda believes that technological innovation is equally important as corporate strategies and production. Through developments over years, the Group has built a platform for the threefold purpose of research, development and innovation by enhancing both its research and development system at the production level and its technical cooperation with external parties on the back of the technology research centre.

The Group's strategy in product variety is to "offer what competitors do not offer; be the first to launch what competitors would also offer; and outplay in quality what competitors have already launched." We vigorously introduced advanced breeds from domestic and international sources and carried out experimental cultivations, rapidly applied suitable breeds in various production bases. The competitive advantages are sustained and fostered, offering an important support for business development. A strong build-up of breeds for the Group has been developed as thousands of new breeds were introduced, from which over one hundred breeds were selected for final production after testing and screening.

The cultivation of proprietary breeds has always been considered a key strategic objective of the Group. We consolidate resources in terms of people, capital, physical assets and technology as a driving force to fuel the research and development of new breeds, while a fine breed research and development centre has been established where new products are being developed for Chaoda's product family.

### People come first as we seek harmony in development

While we may have progressive ideas or advanced technologies, we always need the right people to put them into practice. Top-calibre talent is an indispensable factor for Chaoda's development. At the production bases as well as other departments of the Group, the people-oriented principle is firmly adhered to and employees are appointed on the basis of merit. We stress the importance of implementing a management mechanism subject to constant improvements and standardisation efforts. Meanwhile, we vigorously recruit talent, for which we would provide appropriate training and foster a sound framework for personnel management, so that we could build an elite team consisting of conscientious, competent and dynamic people. With the extensive locations of the Group's production bases, our need for high-calibre staff with "technical qualities, vocational skills and business aptitude" will be impending as our enterprise continues to grow rapidly. The Group selectively recruits fresh graduates each year and provides them with systematic professional training, aiming at preparing back-up management and technical staff for the production bases. Simultaneously, we continue to enhance performance appraisal as part of our efforts to enrich and perfect a competitive mechanism for human resources.

As at 30 June 2010, the Group had 23,236 employees (2009: 23,515 employees), of which 21,939 were employees working on the Group's farmlands (2009: 22,148 farmland employees). The remuneration of the employees is determined by reference to their respective positions, duties and responsibilities in the Group. The package includes basic salaries, discretionary bonus and share options. Benefits such as pension, insurance, education, subsidies and training programmes are also provided by the Group. Offering share options to appropriate employees is one of the core components in the remuneration policy to motivate the employees to continue contributing to the future and long-term development of the Group.

### An industry leader with strong brand recognition

Chaoda has been named a "State-Level Dragon Head Leading Agricultural Enterprise" by eight ministries of State including the Ministry of Agriculture since 2002. Such status is retained after Chaoda passed the review in March 2010. Chaoda is deeply honoured to have been endorsed and supported by the government over the years. We are encouraged to make further contributions to the industrialisation and modernisation of the PRC agricultural sector on the back of its inherent strengths.

Since making the list of "China's 500 Most Valuable Brands" named by the World Brand Laboratory for the first time in 2004, Chaoda has consistently ranked among China's leading brand names for agricultural products, showing strong brand competitiveness and potential for growth in brand value. In June 2010, Chaoda was among the top 100 brands in the ranking with a brand value of RMB9,638 million.

## FINANCIAL REVIEW

As a result of proactive business expansion, the Group continued to report sound results for the financial year ended 30 June 2010. Turnover recorded a growth of 14% to RMB6,964 million (2009: RMB6,127 million), reflecting the increase in sales of crops backed by our advantageous conditions and supporting facilities. Accordingly, profit from operations also rose 19%, to RMB3,569 million (2009: RMB3,006 million). Gross profit grew 10% to RMB4,577 million (2009: RMB4,151 million).

"Cost control and operation efficiency" provides core assurance for the Group's development. Greater profit growth and broader development opportunities are only possible if we can apply our resources efficiently to maximise their value. As a result of our effective control over costs, the total operating expenses were reduced to 17% of turnover (2009: 20% of the turnover). While sales increased, the corresponding selling and distribution expenses maintained at 11% of turnover (2009: 11% of turnover). General and administrative expenses decreased by 30% to RMB153 million (2009: RMB220 million), which was attributable to reductions in employees' share option welfare as no share options were granted by the Company during the financial year under review.

Profit for the year attributable to the owners of the Company amounted to RMB3,659 million, a decrease by RMB327 million when compared with RMB3,986 million for the previous financial year which included a gain of RMB1,180 million on redemption of convertible bonds. Excluding the gain and the non-cash item (changes in fair value of biological assets), profit for the year attributable to the owners of the Company rose considerably by 26% to RMB3,505 million (2009: RMB2,788 million).

## LIQUIDITY AND FINANCIAL RESOURCES

In adherence to a prudent financial management policy, the Group maintained a sound cash position and financed its business activities by revenue generated from its operations. During the financial year under review, net cash generated by the Group from its operating activities increased from RMB3,131 million in the previous financial year to RMB3,322 million. As at 30 June 2010, the Group's cash and cash equivalents amounted to RMB2,044 million (2009: RMB3,107 million). The decrease was mainly because the Company fully repaid the guarantee senior notes in February 2010 while the capital expenditure increased. During the financial year under review, the majority of the Group's balances were settled in RMB (the functional currency of the Group). The effect of exchange rate fluctuations was not material to the Group and no hedging was made by the Group.

As at 30 June 2010, the total equity of the Group (including non-controlling interests) amounted to RMB21,508 million (2009: RMB16,757 million). Apart from a small bank loan of approximately RMB15 million, the Group has no outstanding debt following the full repayment of the guaranteed senior notes (2009 debt to equity ratio: 9%). The current ratio was also improved to 16.6 times (2009: 2.8 times).

As at 30 June 2010, the capital commitments of the Group that had been contracted but not provided for, including commitments in respect of the purchases of property, plant and equipment, research and development expenditure, premium payments for the land leases and investment in equity interests, amounted to RMB29 million (2009: RMB110 million). As at 30 June 2009 and 2010, the Group did not have any material contingent liabilities.

## CHARGE ON ASSETS

As at 30 June 2010, the Group had total banking facilities amounting to RMB110 million (2009: RMB420 million), of which approximately RMB15 million (2009: RMB24 million) had been utilised by the Group. These banking facilities were secured by corporate guarantee provided by a subsidiary of the Group, the details of which are set out in note 32 to the financial statements.

Other than the corporate guarantee disclosed above, the Group did not have any charge on assets as at 30 June 2010.

## EVENTS AFTER THE END OF THE FINANCIAL YEAR

On 17 August 2010, the Company announced the raising of approximately US$356 million through the placing of existing shares and top-up subscription of new shares, the issue of US$200 million 3.7% secured guaranteed convertible bonds due 2015 and the issue of call options. The proceeds will be used for expanding existing and establishing new production bases, including but not limited to Northeast China, North China, the Yangtze River areas and South China, complemented by other areas for product varieties, seasonality and market demand. The proceeds would also be used as general working capital.

For details, please refer to the announcement of the Company dated 17 August 2010 and posted on the respective websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company (www.irasia.com/listco/hk/chaoda and www.chaoda.com.hk).

# Corporate Governance Report

The Board is committed to maintaining good corporate governance practices and high standards of business ethics. The Company believes that good corporate governance provides a framework for effective management, achieving business goals and maximising long term value to shareholders.

Throughout the financial year ended 30 June 2010, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the requirement on the roles of the chairman and chief executive officer to be segregated.

## BOARD OF DIRECTORS

### Composition

The Board consists of six executive directors, one non-executive director and four independent non-executive directors. Names and biographical details of the directors are disclosed in the section headed "Profiles of Directors and Senior Executives" of this annual report. To the best knowledge of the Company, there are no relationships (including financial, business, family or other material relationships) among the directors.

The number of the independent non-executive directors represents more than one-third of the Board. In compliance with Rule 3.10 of the Listing Rules, at least one of the independent non-executive directors has appropriate professional qualifications or accounting or related financial management expertise. The Company has received annual confirmation of independence from all independent non-executive directors pursuant to Rule 3.13 of the Listing Rules and considers them to be independent of the management and free of relationship that could materially interfere with their exercise of independent judgment.

Each of the non-executive director and the independent non-executive directors is appointed for a specific term of two years. Appointment may be terminated by either party serving on the other party a written notice of not less than three months. In accordance with the CG Code and the Company's articles of association, they should be subject to retirement by rotation at least once every three years at the annual general meeting.

### Responsibilities

The Board formulates the long term strategies of the Group and is responsible for leading the Group in the areas of management, business development, research and innovation as well as financial performance. There is a clear division of responsibilities between the Board and the management. Decisions delegated by the Board to the management include implementation of the policy and direction determined by the Board, monitoring the business operation, preparing financial statements, complying with applicable laws and regulations.

The Board has established two committees, the Audit Committee and the Remuneration Committee, with specific responsibilities as set out in their respective terms of reference.

### Board meetings

During the financial year ended 30 June 2010, the full Board held four meetings to approve, inter alia, the interim and final results announcements, the interim and final reports, distribution of final dividends and the notifiable transaction. The attendance of individual directors at the meetings of the Board is set out as follows:

| Name of director | Attendance |
|---|---|
| **Executive directors:** | |
| Mr. Kwok Ho *(Chairman)* | 4/4 |
| Dr. Li Yan | 4/4 |
| Ms. Huang Xie Ying | 4/4 |
| Mr. Kuang Qiao | 4/4 |
| Mr. Chen Jun Hua | 4/4 |
| Mr. Chan Chi Po Andy | 4/4 |
| **Non-executive director:** | |
| Mr. Ip Chi Ming | 4/4 |
| **Independent non-executive directors:** | |
| Mr. Fung Chi Kin | 4/4 |
| Mr. Tam Ching Ho | 3/4 |
| Professor Lin Shun Quan | 3/4 |
| Ms. Luan Yue Wen | 3/4 |

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. A copy of the Model Code is sent to each director of the Company first on his appointment and twice annually, before the commencement of the periods prohibiting directors to deal in the securities and derivatives of the Company, with a reminder on each occasion that such prohibition remains up to the publication date of the Group's annual or interim results.

Subsequent to specific enquiries made by the Company, all of the directors confirmed that they have complied with the Model Code throughout the financial year under review. The directors' interests as at 30 June 2010 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) are set out in the Directors' Report under the section headed "Directors' Interests in Securities".

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Kwok Ho serves as the Chairman and Chief Executive Officer of the Company, which deviates from the requirement under code provision A.2.1 of the CG Code that the roles of the chairman and chief executive officer should be segregated.

The Board believes that the present structure of vesting the roles of both Chairman and Chief Executive Officer in the same person will benefit to the Group and the shareholders as a whole. With his profound knowledge and expertise in agricultural business, Mr. Kwok Ho provides a strong and consistent leadership to formulate efficient strategies, to implement prompt decisions and to complete effective business plans of the Group. Major decisions of the Group are made in consultation with members of the Board and appropriate Board committees. A clear segregation of the duties and responsibilities at the board level is maintained to achieve a balance of power and authority.

The Chairman is responsible for ensuring that the Board works effectively and smoothly. Matters proposed by the directors are included in the agenda. All directors receive accurate and timely information and they are properly briefed on issues arising at the Board meetings.

## REMUNERATION COMMITTEE

The Remuneration Committee undertakes to, among other matters, make recommendations to the Board the framework or broad policy and structure for the remuneration of the Chief Executive Officer, Chairman, executive directors and senior management of the Group with the objective as to ensure that such persons are provided with appropriate incentives to encourage enhanced performance and to reward for individual contributions to the success of the Group; determine, within the terms of the policy adopted by the Board and in consultation with the Chairman and/or Chief Executive Officer as appropriate, the individual specific remuneration package of each executive director and member of senior management including benefits in kind, pension rights, bonuses, incentive payments, share options and compensation payments, including any compensation payable for loss or termination of their office or appointment.

No director or manager shall be involved in any decisions as to their own remuneration. The remuneration of an independent non-executive director who is a member of the Remuneration Committee shall be a matter for other members of the Remuneration Committee. The Remuneration Committee's terms of reference are posted on the Company's websites (www.irasia.com/listco/hk/chaoda and www.chaoda.com.hk).

The Remuneration Committee comprises three independent non-executive directors and one executive director. The Remuneration Committee is chaired by Mr. Fung Chi Kin. During the financial year under review, the Remuneration Committee met once to review matters including the remuneration policy adopted by the Group for its employees as well as the remuneration for the directors and senior management. It also discussed the remuneration policy and the overall level of increment applicable to the employees of the Group for the following calendar year. The attendance of the meeting of the Remuneration Committee is set out below.

| **Members of the Remuneration Committee** | | **Attendance** |
|---|---|---|
| Mr. Fung Chi Kin *(Chairman)* | Independent non-executive director | 1/1 |
| Mr. Tam Ching Ho | Independent non-executive director | 1/1 |
| Ms. Luan Yue Wen | Independent non-executive director | 1/1 |
| Mr. Chen Jun Hua | Executive director | 1/1 |

## NOMINATION OF DIRECTORS

The Company has not set up a nomination committee. Pursuant to the Company's articles of association, the Board shall have power to appoint any person as a director either to fill a casual vacancy or as addition to the Board.

The Board is responsible for formulating the nomination policies, making recommendations to the shareholders on the directors standing for re-election, providing sufficient biographical details of the directors to enable shareholders of the Company to make an informed decision on the re-election of the directors. Various criteria are considered in selecting candidates for directorship including personal and professional background, business and industry experience.

At the forthcoming 2010 Annual General Meeting, Dr. Li Yan, Ms. Huang Xie Ying, Mr. Ip Chi Ming and Ms. Luan Yue Wen will retire from the office as directors by rotation, and being eligible, offer themselves for re-election.

## AUDITORS' REMUNERATION

The fee paid or payable to the external auditors of the Group for the financial year ended 30 June 2010 amounted to RMB4,205,000 (2009: RMB3,927,000).

## AUDIT COMMITTEE

The responsibilities of the Audit Committee include monitoring the integrity of the financial statements of the Group (including its annual and interim reports and accounts, preliminary results announcements and any other formal announcements relating to its financial performance); reviewing significant financial reporting issues and judgments thereof before the financial statements are submitted to the Board; reviewing the effectiveness of the Group's financial controls, internal controls and risk management systems; assessing the independence and objectivity of the external auditors.

In discharging its duties, the Audit Committee is provided with sufficient resources and is authorised by the Board to obtain outside legal or other independent professional advice at the expense of the Group on any matters within its terms of reference as published on the Company's websites (www.irasia.com/listco/hk/chaoda and www.chaoda.com.hk).

The Audit Committee consists of three members all of whom are independent non-executive directors. Mr. Tam Ching Ho is the Chairman and two other members are Mr. Fung Chi Kin and Ms. Luan Yue Wen. The attendance of the meetings of the Audit Committee during the financial year under review is as follows:

| **Members of the Audit Committee** | | **Attendance** |
|---|---|---|
| Mr. Tam Ching Ho *(Chairman)* | Independent non-executive director | 4/4 |
| Mr. Fung Chi Kin | Independent non-executive director | 4/4 |
| Ms. Luan Yue Wen | Independent non-executive director | 4/4 |

During the financial year ended 30 June 2010, the Audit Committee has, among other things, discussed and reviewed financial reporting matters, including the interim and annual consolidated financial statements and reports of the Group before these statements and reports were submitted to the Board for approval; assessed the effectiveness of the audit process of the external auditors; reviewed the internal audit report; and reviewed the effectiveness of the internal control system.

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board has presented a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge in writing their responsibility for preparing the annual and interim accounts of the Company. The Board is responsible for overseeing the preparation of the financial statements for the financial year ended 30 June 2010, to reflect truly and fairly the affairs of the Company and of the Group and the results thereof.

The statement of the external auditors of the Group in respect of their reporting responsibilities for the financial statements is set out in the Independent Auditors' Report.

## INTERNAL CONTROLS

The Board is responsible for ensuring that the Group maintains sound and effective internal control system to safeguard the assets of the Group and interests of the shareholders. The internal control system of the Group is designed to safeguard assets against unauthorised use or disposition, maintain proper accounting records for provision of reliable financial information used internally and for publication, and ensure compliance with relevant legislation and regulations. The system is designed to manage rather than eliminate the risk of failure in operational systems and achievement of the Group's objectives, and to provide reasonable but not absolute assurance.

The internal audit department is established to provide independent assurance to the Board and management on the adequacy and effectiveness of internal controls for the Group. The department adopts a risk and control based audit approach. Internal audit reports are communicated to and discussed with the Audit Committee and the Board.

The internal control consultant, Crowe Horwath (HK) CPA Limited (formed by the merger of CCIF CPA Limited and PCP CPA Limited in 2009) has conducted independent review on specific areas of the internal control system of the Group. No significant weaknesses in internal controls were found during their review.

During the financial year under review, the Board has conducted a review of the effectiveness of the system of internal control of the Group. The Board considers that the Group's internal control system is adequate and effective.

## SHAREHOLDERS' RIGHT

According to the articles of association of the Company, any two or more members of the Company or any one member of the Company which is a recognised clearing house (or its nominee(s)) may request for an extraordinary general meeting to be convened upon depositing at the principal office of the Company in Hong Kong written requisition specifying the objects of the meeting and signed by the requisitionist(s), provided that as at the date of deposit of the requisition, such requisitionist(s) hold not less than one-tenth of the paid-up capital of the Company which carries the right of voting at a general meeting of the Company.

## SHAREHOLDERS AND INVESTORS

### Annual General Meeting

The most recent annual general meeting of the Company was held on 27 November 2009. The Chairmen of the Board, the Audit Committee and the Remuneration Committee together with other executive directors attended the meeting to answer the questions and enquires of the shareholders.

A notice of at least 20 clear business days is given to all shareholders before the date of the 2010 Annual General Meeting and the voting of the meeting will be conducted by way of a poll. A circular setting out details of each proposed resolution together with other relevant information will be provided to the shareholders to allow them to make an informed decision. At the meeting, the directors will also be available to answer questions regarding the business of the Group.

### Communication

The Group communicates with its shareholders and investors through various means, including annual general meetings, extraordinary general meetings (if any), annual and interim reports, notices and circulars sent to shareholders, announcements, press releases and other corporate communications available at the Company's websites (www.irasia.com/listco/hk/chaoda and www.chaoda.com.hk) with a view to keeping all interested parties informed of the most up-to-date activities and performance of the Group.

To enhance relationship and communication with its investors, regular meetings, investment forums, global road shows, conference calls and site visits to the production bases in the PRC are arranged to keep institutional investors and analysts abreast of the Group's development.

An investor relations team is delegated and assigned to take care of enquiries from shareholders and investors. Details of the Group's investor relations activities can be found under the section headed "Investor Relations". The shareholders and investors are also welcome to share their views and suggestions by contacting the investor relations team through the following methods:

| | | |
|---|---|---|
| By telephone | : | (852) 2845 0168 |
| By fax | : | (852) 2827 0278 |
| By email | : | investor@chaoda.com.hk |

# Investor Relations

## FINANCIAL YEAR 2009/2010 KEY EVENTS

## *Year 2009*

**7 July**, Cui Jie (first to the right), the mayor of Changchun City, visited Chaoda's Changchun production base for briefings on Chaoda's cultivation process. Cui expressed his admiration for the leadership Chaoda has displayed in agricultural modernisation.

**13 to 17 August**, The 2009 Hong Kong Food Expo was held at the Hong Kong Convention & Exhibition Centre. Chaoda exhibited over 30 kinds of fresh products, including broccoli, bell peppers, tomatoes and sweet corns. The exhibition revealed Chaoda's ecological farming vision and market competitiveness of its products.

**31 August**, Chen Xiwen, director, and Tang Renjian, deputy director, both of the Office of the Central Rural Work Leading Group, visited Chaoda's Yangzhou production base to inspect its modern agricultural development. Chen encouraged Chaoda to take advantage of local resources to increase productivity and farmers' incomes as well as to develop a cost-efficient vegetable industry.


**2 September**, Chaoda donated RMB1.5 million through the Association for Relations Across the Taiwan Straits and the Straits Agriculture Exchange Association to help rehabilitate areas of Taiwan that were hit by "Typhoon Morakot".

**7 to 13 September**, The 7th China International Agricultural Trade Fair was held in Changchun, Jilin Province. Chaoda's booth featured more than 30 kinds of high-quality fruits and vegetables. The trade fair drew the highest domestic and international participation of any agricultural fair to date.

**21 September**, *Forbes* included Chaoda in its 2009 list of "Asia's 200 Best Under A Billion". The list used profitability, growth, debt management, and future prospects as its criteria.

**September**, The Chinese edition of *Forbes* included Chaoda in its "2009 China Charity List" based on its corporate donations for disaster relief, and consistent support for education and poverty eradication. Chaoda was the only agricultural enterprise to be named.

**15 October**, Fujian Governor Huang Xiaojing visited Chaoda's Zhouning production base. The governor expressed his appreciation for the good model provided by Chaoda and encouraged Chaoda to be a leader in provincial economic development and innovation. The governor expressed the hope that Chaoda would continue to build the scale and influence of China's vegetable industry.


**19 October**, Vice Minister of Agriculture Zhang Taolin joined an off-site visit to Chaoda's Yangzhou production base, together with over 300 agricultural government officials and agricultural experts from 31 provinces, autonomous regions and municipalities. Zhang praised Chaoda's accomplishments in terms of raising the income levels of farmers and supporting agricultural modernisation. He described Chaoda's business model as a fast-track, innovative, and based on a high starting point.

# *Year 2009*


**19 December**, The Ministry of Agriculture launched "Establishment of Standard Vegetable Garden" Project in Jiangsu Province at Chaoda's Yangzhou production base. As a leader in this Garden, Chaoda will use standardised production technology and quality controls to develop national standards. The Group is creating a management system to spread these technologies throughout its production bases in order to enhance competitiveness.


**30 December**, Chaoda's premium rice was awarded a gold prize in the first "Local High-Quality Rice Selection" competition in Fujian Province.

# *Year 2010*

**January**, *Qiushi* magazine published Chairman Kwok Ho's article introducing Chaoda's success in meeting the challenge of the global economic crisis in 2008. As an official publication of the Communist Party of China ("CPC"), *Qiushi* is the primary theoretical journal of the CPC.


证书

福州超大现代农业发展有限公司:

经农业部、国家发展和改革委员会、财政部、商务部、中国人民银行、国家税务总局、中国证券监督管理委员会、中华全国供销合作总社联合审定你单位为农业产业化国家重点龙头企业。

特发此证

二〇一〇年三月

**March**, Chaoda was again designated a "State-Level Dragon Head Leading Agricultural Enterprise", after passing a review by eight ministries of State including the Ministry of Agriculture.

**May**, Unprocessed milk from Xilin Gol League in Inner Mongolia, Chaoda's Duolun dairy cattle breeding base, was certified as an organic product, after undergoing rigorous testing.

**17 May**, The Third International Conference of Businessmen of Fujian Origin was held in Fuzhou, Fujian Province, awarding Chaoda Chairman Kwok Ho its annual prize for outstanding philanthropic work by a businessman in the private sector in Fujian.

**18 June**, Katherine DiMatteo, president of International Federation of Organic Agriculture Movements ("IFOAM") visited Chaoda. DiMatteo applauded Chaoda's achievement in the organic agriculture business. She encouraged Chaoda to expand its ecological farming business and promised the support of IFOAM.

# *Year 2010*


**28 June**, The World Brand Laboratory ("WBL") announced "China's 500 Most Valuable Brands" in 2010, with Chaoda ranked No. 83. WBL estimated the brand value of "Chaoda" as RMB9,638 million, an increase of RMB1,565 million over the previous year.

**9 July**, Chairman Kwok Ho personally donated RMB10 million to help rehabilitate areas of northern and western Fujian that were devastated by floods. The funds were used to re-build agricultural infrastructure and restore agricultural production in the affected regions. Zhang Changping, vice governor of Fujian and a member of the Fujian Provincial Communist Party Committee, accepted Chairman Kwok's donation on behalf of the flood victims.

**13 July**, *Fortune* (Chinese edition) published its first "China's Top 500 Companies List" for 2009. The magazine has regularly published the list of the top 100 listed corporations in China in the past nine years. Chaoda ranked 315th on the list, and ranked fourth in the agriculture, forestry, animal husbandry and fishery industry category.


**7 August**, The Organic Food Development Center of China's Ministry of Environmental Protection named Chaoda's organic tea production base as one of its "2010 Demonstration Production Bases for Organic Farming".

## INVESTOR RELATIONS CALENDAR

| Date | Event | Place |
|---|---|---|
| 6 November 2009 | Site visit at Chaoda's Zhangzhou production base organised by Goldman Sachs | Fujian, PR China |
| 25–26 November 2009 | Daiwa Investment Conference (Hong Kong) 2009 | Hong Kong |
| 30 November 2009 | Investor site visit at Chaoda's Zhangzhou production base organised by Daiwa Securities | Fujian, PR China |
| 26–27 April 2010 | Macquarie China/Hong Kong Conference | Hong Kong |
| 29 April 2010 | Investor site visit at Chaoda's Yangzhou production base organised by Macquarie Securities | Jiangsu, PR China |
| 12–13 May 2010 | Japan Roadshow organised by Mitsubishi UFJ Securities (HK) | Japan |
| 24–26 May 2010 | Daiwa Investment Conference (London) 2010 | UK & Switzerland |
| 1–2 July 2010 | HKEx Investment Seminar (New York) 2010 | US |
| 14 July 2010 | Bank of America Merrill Lynch Asia Agriculture Corporate Day | Hong Kong |
| 27 July 2010 | Site visit at Chaoda's Zhangbei production base organised by the Group | Hebei, PR China |

# Profiles of Directors and Senior Executives

## EXECUTIVE DIRECTORS

**Mr. KWOK Ho**, aged 55, holds an Honorary Doctor of Business Administration. He is the Chairman of the Board, the Chief Executive Officer ("CEO") and the founder of the Group. Mr. Kwok is a director and the legal representative in some of the subsidiaries of the Company. Mr. Kwok is primarily responsible for the formulation and deployment of the overall strategy of the Group. He has over 25 years of experience in commercial trading in the PRC, particularly in the areas of strategic planning, management, business development, product strategy, sales and marketing. In 2008, Mr. Kwok was respectively re-elected as a member of the 10th Fujian Provincial Committee of the Chinese People's Political Consultative Conference and the 2nd President of the Fujian Agricultural Industrialisation Association. In 2009, Mr. Kwok was again granted by the Fujian Provincial Committee and the People's Government of Fujian Province the award of the 2nd Fujian Outstanding Contribution Entrepreneur of Fujian Province.

**Dr. LI Yan**, aged 46, is primarily responsible for the Group's research and innovation technology management. He received his master and doctorate degrees in Plant Nutrition and Horticulture from Fujian Agricultural University respectively and was appointed as professor of the Faculty of Horticulture at the same university. Dr. Li has extensive experience in agricultural farming, particularly in the areas of planting and cultivation methods, as well as pest and disease management. He joined the Group in January 1997.

**Ms. HUANG Xie Ying**, aged 62, is primarily responsible for the Group's finance management function. She graduated from Xiamen Economic College. Ms. Huang joined the Group in January 1997 and has over 18 years of extensive accounting experience in the PRC. Ms. Huang was appointed as an executive director of the Group on 1 September 2003.

**Mr. KUANG Qiao**, aged 39, is primarily responsible for business development and new project management of the Group. He graduated from the Faculty of Horticulture (specialising in vegetables) of Nanjing Agricultural University in July 1992 with a bachelor degree in agriculture. Mr. Kuang joined the Group in 1996 and has more than 17 years of extensive experience in the agricultural industry. Mr. Kuang was appointed as an executive director of the Group on 1 September 2003.

**Mr. CHEN Jun Hua**, aged 43, is also the Vice President of General Affairs of the Group. He is mainly responsible for assisting the CEO in integrated administrative management of the Group. Mr. Chen received his bachelor degree in agriculture from the China Agricultural University and master degree in agriculture marketing from the Chinese Academy of Agricultural Sciences respectively. Mr. Chen has over 20 years of experience in agricultural development and administrative management. Mr. Chen joined the Group in October 2002 and was appointed as an executive director of the Group on 17 August 2005. He is also a member of the Remuneration Committee of the Company.

**Mr. CHAN Chi Po Andy**, aged 44, is also the Chief Financial Officer of the Group. He is also a director of two of the subsidiaries of the Company. Mr. Chan is primarily responsible for financial management and financial information analysis of the Group. Mr. Chan graduated from The University of Sheffield in the United Kingdom with an honours degree in accounting, financial management and economics. Mr. Chan is a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Institute of Chartered Accountants in England and Wales. Prior to joining the Group in 2003, Mr. Chan served as senior corporate auditor responsible for the Asia Pacific region of a company listed on the New York Stock Exchange for approximately 3 years. Mr. Chan has also held office in an international accounting firm and The Stock Exchange of Hong Kong Limited for a total of approximately 8 years before joining the Group. Mr. Chan was appointed as an executive director and the Chief Financial Officer of the Group on 17 August 2005.

## NON-EXECUTIVE DIRECTOR

**Mr. IP Chi Ming**, aged 49, was formerly an executive director of the Company until 8 January 2010 when he has been re-designated as a non-executive director of the Company. Mr. Ip is a director of some of the subsidiaries of the Company. He is also the non-executive vice chairman of Asian Citrus Holdings Limited, an associated company of the Company listed on the Alternative Investment Market of the London Stock Exchange and The Stock Exchange of Hong Kong Limited. Mr. Ip has also acted as an executive director of Suncorp Technologies Limited, a company listed on The Stock Exchange of Hong Kong Limited, since 25 February 2010. Mr. Ip has over 20 years of experience in trading and marketing in the food products industry as well as extensive experience in corporate strategic planning, overall management, business development, sales and marketing.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. FUNG Chi Kin**, aged 61, is the Honorary Permanent President of The Chinese Gold & Silver Exchange Society, the International Advisor of Shanghai Gold Exchange and Director of Fung Chi Kin Consulting Limited. He is also an independent non-executive director of a listed company in Hong Kong, namely New Times Energy Corporation Limited. Mr. Fung has over 30 years of experience in banking and finance. Prior to his retirement, he was the Director and Deputy General Manager of Po Sang Bank Limited (merged into Bank of China (Hong Kong) Limited in 2001), Managing Director of BOCI Securities Limited and Chief Administration Officer of BOC International Holdings Limited. From October 1998 to June 2000, Mr. Fung served as a Council Member of the First Legislative Council of the HKSAR. He also held offices in various public organisations and was the Vice Chairman of The Stock Exchange of Hong Kong Limited, Director of the Hong Kong Futures Exchange Limited, Director of Hong Kong Securities Clearing Company Limited and Hong Kong Affairs Advisor. Mr. Fung has been an independent non-executive director of the Company since 1 September 2003 and is a member of the Audit and Remuneration Committees of the Company. He is also the Chairman of the Remuneration Committee.

**Mr. TAM Ching Ho**, aged 39, is an independent non-executive director and a member of the Audit and Remuneration Committees of the Company. Mr. Tam is also the Chairman of the Audit Committee. He obtained a bachelor's degree of arts with honours in accountancy from the City University of Hong Kong in 1993. Since graduation, Mr. Tam has worked in a reputable international accounting firm specialising in providing assurance services to pre-listing, listed and multinational clients for more than eight years. He has also held senior positions in several companies which mainly include acting as the financial controller of a company listed on the Main Board of The Stock Exchange of Hong Kong Limited and another company listed on the Main Board of the Singapore Exchange Limited for a total of about seven years. He is currently a certified public accountant (practising) registered with the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tam has accumulated extensive experience in areas of corporate finance and administration, listing compliance, PRC business operating environment, investor relations, accounting and auditing. Mr. Tam is an associate member of the HKICPA and a fellow member of The Association of Chartered Certified Accountants. He is also an independent non-executive director of China Zenith Chemical Group Limited, a listed company in Hong Kong.

**Professor LIN Shun Quan**, aged 55, received his doctorate degree in Agriculture from Fujian Agricultural University and had been on sabbatical twice with Saga University, Japan in 1988 and 1996 respectively. He was appointed as professor at Huanan Agricultural University as well as head of College of Horticulture, Huanan Agricultural University. He has extensive experience in the agricultural industry in the PRC. Professor Lin was appointed as an independent non-executive director of the Company on 17 November 2000.

**Ms. LUAN Yue Wen**, aged 50, holds a professional diploma in Computer Science, a professional diploma in Economic Law, a professional diploma in Financial Accounting, a Master Degree in Business Administration and a Master Degree in Building Construction and Real Estate Project Management. Ms. Luan has over 20 years of experience in the financial accounting and auditing field. Ms. Luan is a member of the Chinese Institute of Certified Public Accountants and also a member of the Chinese Institute of Valuers. Ms. Luan has been an independent non-executive director of the Company since 20 September 2004 and is a member of the Audit and Remuneration Committees of the Company.

## SENIOR EXECUTIVES

**Ms. YEUNG Pik Chun Colana**, aged 53, is the Legal Counsel and Company Secretary of the Group. Ms. Yeung is a barrister and practised in Hong Kong before joining the Group in December 2006. Ms. Yeung obtained her master of law degree from the University of Hong Kong. She is a member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. Prior to her legal practice, Ms. Yeung held senior company secretarial and management positions in various corporate organisations for over 15 years.

**Mr. WANG Zhi Qun**, aged 55, is the Vice President of the Group. Mr. Wang is primarily responsible for the management of administration and logistics of the Group. Mr. Wang graduated from San Ming Teachers School, and received local and overseas senior managerial trainings. Mr. Wang was a senior corporate executive prior to joining the Group in February 2000, and has over 26 years of extensive experience in integrated corporate management.

**Mr. YANG Jin Fa**, aged 35, is the Vice President of the Group and the General Affairs Vice President of the Group's strategic planning department. Mr. Yang is primarily responsible for the strategic planning, promotion of corporate planning and media marketing of the Group. He is also in charge of the management of production and product sales of the Group. Mr. Yang graduated from Fujian Agricultural University (specialising in economics and management). He joined the Group in 1999. He has extensive experience in public relations, media management and marketing, and policy planning.

**Mr. David Alfred SEALEY III**, aged 47, is the Deputy Chief Operation Officer. Mr. Sealey is primarily responsible for the Group's business development in the international trade markets. Mr. Sealey graduated from University of Kentucky in the USA with a bachelor degree in marketing. Prior to joining the Group, Mr. Sealey worked in various companies in the USA and Japan, responsible for corporate operation, product planning and quality control and marketing. He has extensive experience in corporate operation and management. Mr. Sealey joined the Group in August 2004.

**Mr. WANG Jin**, aged 34, is the assistant to the CEO of the Group. Mr. Wang is primarily responsible for e-commerce, network security and administrative management of the Group. Mr. Wang graduated from Anhui Agricultural University with a bachelor degree in agriculture. He joined the Group in 1999. He has extensive experience in agricultural microorganisms, network platform infrastructure, information administrative management and logistics.

**Mr. GONG Wen Bing**, aged 40, is the General Agronomist of the Group. Mr. Gong assists in the areas of the strategic planning of the Group's products, production and product sales management. He graduated from the Faculty of Horticulture (specialising in vegetables) of Nanjing Agricultural University in July 1992 with a bachelor degree in agriculture. Mr. Gong joined the Group in January 2002 and has over 16 years of extensive experience in the agricultural industry. He acquires professional technical know-how in the agricultural industry.

**Mr. HE Can De**, aged 47, is the assistant to the CEO of the Group. Mr. He is responsible for assisting the CEO in production, planning and management of the Group's investment projects. Mr. He graduated from Fujian Zhang Zhou Health and Hygiene School. He joined the Group in 2000. Mr. He has extensive experience in the management of production base, construction and planning of investment projects, product development and sales.

**Mr. WANG Jing Hai**, aged 59, is the Head of the Internal Audit Department of the Group. He is responsible for the internal audit and internal control of the Group. Mr. Wang graduated from Shanghai East China Normal University with a bachelor degree in accounting and economics. Prior to joining the Group in 2000, he had worked in a large state-owned enterprise in Shanghai and an American wholly owned foreign enterprise, responsible for corporate management, internal control and audit. He has over 34 years of experience in the management and internal audit.

**Mr. WANG Long Wang**, aged 45, is the Head of the Production Base Department of the Group and Deputy Head of the Technology Research Centre. Mr. Wang is primarily responsible for the management and technology research and development, demonstration and promotion work of the production base. Mr. Wang graduated from the College of Horticulture, Nanjing Agricultural University with a bachelor degree in agriculture in 1985. Prior to joining the Group in 2000, he has worked in the Vegetables Office of Fujian Province, Fuzhou Institute of Vegetable Science, responsible for the management, research and development of vegetable production. He has also been to Thailand, Jamaica and other countries for further studies and work, and has over 24 years of experience in the agricultural industry.

**Mr. SHI Shu Quan**, aged 35, is the General Manager of the Trading Department of the Group. He is primarily responsible for product marketing and management of the production bases of the Group. Mr. Shi graduated from Xiamen Tourism School. Prior to joining the Group in 2006, he worked in various Malaysian and Indonesian wholly-owned foreign enterprises, involved in marketing and management work and has over 13 years of experience in these areas. He is experienced in sales channels development, customer relationship management, price management and team building.

# Directors' Report

The directors have pleasure in presenting to the shareholders their report together with the audited financial statements of the Group for the financial year ended 30 June 2010.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and, through its subsidiaries, producing and selling agricultural produce. An analysis of the Group's turnover for the financial year ended 30 June 2010 is set out in note 5 to the financial statements.

## PRINCIPAL SUBSIDIARIES

A list of its principal subsidiaries together with their places of incorporation, principal activities and places of operation, particulars of their issued/registered and paid-up capital is set out in note 43 to the financial statements.

## FINANCIAL RESULTS

The profit of the Group for the financial year ended 30 June 2010 and the state of affairs of the Company and of the Group at that date are set out on pages 43 to 115.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 116.

## DIVIDEND

The directors have recommended the payment of a final dividend of HK$0.06 per share for the financial year ended 30 June 2010 (2009: HK$0.05 per share) to the shareholders subject to the approval by the shareholders at the forthcoming annual general meeting to be held on 30 November 2010 ("2010 Annual General Meeting").

The proposed final dividend, if approved by the shareholders at the 2010 Annual General Meeting, will be paid on or before 7 December 2010 to shareholders whose names appear on the Register of Members on 30 November 2010.

No interim dividend was declared for the six months ended 31 December 2009 (six months ended 31 December 2008: Nil).

## RESERVES

Movements in reserves of the Company and the Group during the financial year under review are set out in note 38 to the financial statements and in the consolidated statement of changes in equity. The reserves of the Company available for distribution to shareholders as at 30 June 2010 amounted to RMB4,383,928,000 (2009: RMB3,054,481,000).

## DONATIONS

Donations made by the Group during the financial year under review amounted to approximately RMB3 million.

## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the financial year under review are set out in note 16 to the financial statements.

## SHARE CAPITAL

During the financial year under review, the Company issued a total of 162,150,940 new shares (2009: 594,514,066 new shares) as a result of the following events:

(i) 103,327,440 share options exercised by certain grantees under the share option scheme adopted by the Company on 19 June 2002 (the "Scheme"); and

(ii) 58,823,500 consideration shares issued pursuant to an agreement dated 24 December 2009 in respect of the acquisition of 70% of the issued share capital of Keen Spirit Global Limited by one of the wholly owned subsidiaries of the Company, Great Challenge Developments Limited, details of which were set out in the announcement of the Company dated 25 December 2009.

Movements in the issued share capital of the Company are set out in note 36 to the financial statements.

## PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under the laws of the Cayman Islands, the jurisdiction in which the Company is incorporated.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

On 8 February 2010, the Company fully repaid US$225 million 7.75% guaranteed senior notes due 2010 (listed on the Singapore Exchange Securities Trading Limited). Since then, the Company had no outstanding notes. The notes were delisted on 11 February 2010.

Other than as stated above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the financial year under review.

## DIRECTORS

During the financial year under review and up to the date of this annual report, the directors of the Company are:

| | | |
|---|---|---|
| **Executive Directors** | Mr. Kwok Ho *(Chairman)* | Mr. Kuang Qiao |
| | Dr. Li Yan | Mr. Chen Jun Hua |
| | Ms. Huang Xie Ying | Mr. Chan Chi Po Andy |
| **Non-executive Director** | Mr. Ip Chi Ming | |
| **Independent Non-executive Directors** | Mr. Fung Chi Kin | Professor Lin Shun Quan |
| | Mr. Tam Ching Ho | Ms. Luan Yue Wen |

Particulars of the directors' remuneration of the Company are set out in note 14 to the financial statements.

In accordance with Article 116A of the Company's articles of association, every director shall retire from office at an annual general meeting by rotation at least once for every three consecutive annual general meetings. Henceforth, Dr. Li Yan, Ms. Huang Xie Ying, Mr. Ip Chi Ming and Ms. Luan Yue Wen will retire from office at the 2010 Annual General Meeting and, being eligible, offer themselves for re-election.

No retiring directors proposed for re-election at the 2010 Annual General Meeting have an unexpired service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2010, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or otherwise as notified to the Company and the Stock Exchange pursuant to the Model Code as set out in the Listing Rules were as follows:

### Long positions in shares of the Company

| Name of director | Nature of interests | Number of shares held | Total | Percentage of issued share capital recorded in the register |
|---|---|---|---|---|
| Mr. Kwok Ho | Personal interests | 1,028,000 | 643,092,644 | 20.63% |
| | Corporate interests *(Note)* | 642,064,644 | | |
| Mr. Chan Chi Po Andy | Personal interests | 103,528 | 103,528 | 0.00% |

*Note: Held through Kailey Investment Ltd. which is wholly owned by Mr. Kwok Ho.*

## Long positions in underlying shares of the Company

| Name of director | Grant date | Exercisable period Starting | Ending | Exercise price HK$ | Balance as at 01/07/2009 | Number of share options during the financial year Exercised | Lapsed | Balance as at 30/06/2010 | Weighted average closing price HK$ (Note) |
|---|---|---|---|---|---|---|---|---|---|
| Mr. Kwok Ho | 28/01/2003 | 01/07/2003 to | 27/01/2013 | 1.500 | 22,113,000 | — | — | 22,113,000 | — |
| | 28/01/2003 | 01/01/2004 to | 27/01/2013 | 1.500 | 22,113,000 | — | — | 22,113,000 | — |
| | 28/01/2003 | 01/01/2005 to | 27/01/2013 | 1.500 | 22,113,000 | — | — | 22,113,000 | — |
| Dr. Li Yan | 04/11/2005 | 04/11/2009 to | 03/11/2015 | 2.815 | 421,200 | 421,200 | — | — | 8.30 |
| | 24/10/2008 | 24/10/2008 to | 23/10/2018 | 3.846 | 2,080,000 | 2,080,000 | — | — | 7.12 |
| Ms. Huang Xie Ying | 04/11/2005 | 04/11/2005 to | 03/11/2015 | 2.815 | 421,200 | 421,200 | — | — | 6.40 |
| | 04/11/2005 | 04/11/2006 to | 03/11/2015 | 2.815 | 421,200 | 421,200 | — | — | 8.30 |
| | 04/11/2005 | 04/11/2007 to | 03/11/2015 | 2.815 | 421,200 | 421,200 | — | — | 8.30 |
| | 04/11/2005 | 04/11/2008 to | 03/11/2015 | 2.815 | 421,200 | 421,200 | — | — | 8.30 |
| | 04/11/2005 | 04/11/2009 to | 03/11/2015 | 2.815 | 421,200 | 421,200 | — | — | 8.30 |
| | 24/10/2008 | 24/10/2008 to | 23/10/2018 | 3.846 | 3,120,000 | 3,120,000 | — | — | 8.30 |
| Mr. Kuang Qiao | 04/11/2005 | 04/11/2009 to | 03/11/2015 | 2.815 | 421,200 | 421,200 | — | — | 6.67 |
| | 24/10/2008 | 24/10/2008 to | 23/10/2018 | 3.846 | 120,000 | 120,000 | — | — | 6.85 |
| Mr. Chen Jun Hua | 17/08/2005 | 17/08/2009 to | 16/08/2015 | 2.935 | 631,800 | 631,800 | — | — | 8.37 |
| | 24/10/2008 | 24/10/2008 to | 23/10/2018 | 3.846 | 2,120,000 | 2,120,000 | — | — | 8.37 |
| Mr. Chan Chi Po Andy | 17/08/2005 | 17/08/2007 to | 16/08/2015 | 2.935 | 423,800 | 423,800 | — | — | 7.69 |
| | 17/08/2005 | 17/08/2008 to | 16/08/2015 | 2.935 | 631,800 | 631,800 | — | — | 8.30 |
| | 17/08/2005 | 17/08/2009 to | 16/08/2015 | 2.935 | 631,800 | 631,800 | — | — | 8.30 |
| | 24/10/2008 | 24/10/2008 to | 23/10/2018 | 3.846 | 3,120,000 | 1,000,000 | — | 2,120,000 | 8.53 |
| Mr. Ip Chi Ming | 17/08/2005 | 17/08/2009 to | 16/08/2015 | 2.935 | 631,800 | 631,800 | — | — | 5.11 |
| | 24/10/2008 | 24/10/2008 to | 23/10/2018 | 3.846 | 1,220,000 | 1,220,000 | — | — | 5.79 |

*Note: This represents weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised.*

Save as disclosed above, as at 30 June 2010, none of the directors, chief executives or their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Company under Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than as stated above, at no time during the financial year under review, the Company, or any of its subsidiaries was a party to any arrangement to enable the directors of the Company, their respective spouses or children under 18 years of age, to acquire benefits by means of acquisition of shares in, or debentures of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2010, according to the register maintained by the Company in accordance with Section 336 of the SFO, the following parties, other than the directors of the Company, were directly or indirectly interested in 5% or more of the issued share capital and underlying shares of the Company:

| | | Number of shares and underlying shares held | | | Percentage of issued share capital recorded in the register | | |
|---|---|---|---|---|---|---|---|
| **Name of shareholder** | **Capacity** | **Long Position** | **Short Position** | **Lending Pool** | **Long Position** | **Short Position** | **Lending Pool** |
| Kailey Investment Ltd. | Beneficial owner | 642,064,644 *(Note 1)* | — | — | 20.60% | — | — |
| Janus Capital Management LLC | Investment manager | 283,877,885 | — | — | 8.94% | — | — |
| Blackrock, Inc. | Interest of controlled corporation | 174,396,582 *(Note 2)* | 4,410,719 | — | 5.47% | 0.14% | — |
| JPMorgan Chase & Co. | Beneficial owner | 14,503,268 | 9,165,000 | 140,215,656 | 5.09% | 0.29% | 4.40% |
| | Investment manager | 7,566,000 | — | — | | | |
| | Custodian corporation/ Approved lending agent | 140,215,656 | — | — | | | |

*Notes:*

1. *Kailey Investment Ltd. is a company incorporated in the British Virgin Islands with limited liability which is beneficially and wholly owned by Mr. Kwok Ho.*

2. *The interests included aggregate interests in 2,000 underlying shares through its holding of certain listed cash settled equity derivatives.*

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information available to the Company and within the knowledge of the directors, the Company maintained sufficient public float as required under the Listing Rules as at the date of this annual report.

## DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Apart from the information disclosed under the heading "Connected Transactions" below, there was no other contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted at the end of the financial year or at any time during the financial year, and in which the directors had direct or indirect material interest, nor there was any other contract of significance in relation to the Company's business between the Company or any of the Company's subsidiaries and a controlling shareholder or any of its subsidiaries.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the financial year ended 30 June 2010, none of the directors were interested in any business which competes or was likely to compete, either directly or indirectly, with the Company's business.

## CONNECTED TRANSACTIONS

Details of the significant related party transactions undertaken in the ordinary course of business are provided under note 42 to the financial statements. The transactions stated below constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

On 15 May 2009, Fuzhou Chaoda Modern Agriculture Development Company Limited ("Fuzhou Chaoda") and Fujian Chaoda Agricultural Produce Trading Company Limited ("Fujian Chaoda Trading") entered into an organic fertilizers supply agreement (the "2009 Agreement") for a fixed term of three years commencing 1 July 2009. The 2009 Agreement was approved by the then independent shareholders of the Company at an extraordinary general meeting held on 26 June 2009. During the financial year under review, Fujian Chaoda Trading supplied organic fertilizers to Fuzhou Chaoda in accordance with the terms and conditions of the 2009 Agreement (the "Transactions"). Since Fuzhou Chaoda is a principal wholly owned subsidiary of the Company whereas Fujian Chaoda Trading is a company ultimately controlled by Mr. Kwok Ho who is the Chairman and a substantial shareholder of the Company, the Transactions constituted continuing connected transactions of the Group.

The 2009 Agreement enabled the Group to obtain a stable and reliable supply of organic fertilizers. The price of the organic fertilizers supplied under the 2009 Agreement was agreed between the parties at the time when a purchase order was placed and it would not exceed the ex-factory price (net of delivery costs) at which the same type of organic fertilizers was supplied by Fujian Chaoda Trading to independent third parties when the purchase order was placed by Fuzhou Chaoda.

For the financial year ended 30 June 2010, the annual total purchase of the organic fertilizers made by the Group amounted to RMB677,554,000 (2009: RMB661,351,000) which was within the applicable annual cap of RMB870,000,000 as approved by the independent shareholders of the Company.

### Annual review of the Transactions under the Listing Rules

Subject to Rule 14A.37 of the Listing Rules, the independent non-executive directors of the Company have reviewed the Transactions and confirmed that they have been entered into on normal commercial terms in the ordinary and usual course of business of the Group, and in accordance with the relevant agreement governing the Transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company had reviewed the Transactions and provided a letter to the Board in accordance with Rule 14A.38 of the Listing Rules and confirmed, inter alia, that the Transactions have been entered into in accordance with the relevant agreements governing the Transactions and the Transactions have not exceeded the annual cap disclosed in the previous announcement.

## SHARE OPTION SCHEME

The principal terms of the Scheme are summarised as below.

### Purpose

The purpose of the Scheme is to enable the Board to provide incentive or reward to selected participants for their contribution and continuing efforts to promote the interests of the Company.

### Participants

A Category A Participant refers any director (whether executive or non-executive, including any independent non-executive director), or employee (whether full time or part time) of, or any individual for the time being seconded to work for, any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder.

A Category B Participant refers to any holder of any securities issued by any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder.

A Category C Participant refers to (i) any business or joint venture partner, contractor or agent of, (ii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional services to, (iii) any supplier, producer or licensor of any goods or services to, (iv) any customer, licensee or distributor of any goods or services of, or (v) any landlord or tenant of, any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder.

The participants shall include any company controlled by one or more persons belonging to any of the above categories of participants.

### Maximum Entitlement

Without the approval of the shareholders of the Company in general meeting, the Board shall not grant options to a participant which would cause the aggregate number of shares already issued and to be issued upon exercise of options in any 12-month period up to the date of grant exceeding 1% of the shares in issue. In the event of a substantial shareholder of the Company or an independent non-executive director or any of their respective associates, any such grant is limited to 0.1% of the shares in issue and an aggregate value of HK$5 million basing on the closing price of the shares at the date of grant.

### Basis of determining exercise price

The option price is determined by the directors provided always that it shall be at least the higher of (i) the closing price of the shares on the offer date, (ii) the average closing price of the shares for the five business days immediately preceding the offer date. The option price shall in no event be less than the nominal amount of one share.

**Remaining life of the Scheme**

The Scheme will expire on 18 June 2012.

**Other terms**

The share options can be exercised during a period commencing on or after the date of the grant and expiring on such date as the Board may determine in granting the share options but in any event not exceeding ten years from the date of grant. There is no general requirement that a share option must be held for any minimum period before it can be exercised. A consideration of HK$1 is payable upon accepting the offer of the grant. To exercise a share option, the participant has to, inter alia, tender the payment of the subscription price representing an amount equal to the option price multiplied by the relevant number of shares exercised under the option in full.

**Number of shares available for issue**

A scheme mandate representing 10% of the then issued share capital of the Company was approved at the time when the Scheme was adopted ("the Scheme Mandate"). The Scheme Mandate was refreshed pursuant to a resolution of the shareholders of the Company passed on 14 February 2006. As at 30 June 2010, 101,143,928 share options granted under the Scheme remained unexercised and outstanding, which represents approximately 3.02% of the issued share capital of the Company as at the date of this annual report.

Share options granted were recognised as expenses of the Company in accordance with the accounting policy as set out in note 2.15(iii) to the financial statements. The determination of the fair value of the share options is also set out in note 37 to the financial statements.

During the financial year under review, details of the movements of the outstanding share options granted under the Scheme were as follows:

| Category of participants | Grant date | Exercisable period: Starting | Exercisable period: Ending | Exercise price HK$ | Balance as at 01/07/2009 | Number of share options during the financial year: Exercised (Note 1) | Number of share options during the financial year: Lapsed | Balance as at 30/06/2010 | Weighted average closing price HK$ (Note 2) |
|---|---|---|---|---|---|---|---|---|---|
| ***Directors*** *(Note 3)* | | | | | 84,018,400 | 15,559,400 | — | 68,459,000 | — |
| ***Employees*** in aggregate | 28/05/2004 | 01/01/2007 to | 27/05/2014 | 2.279 | 446,940 | 200,000 | — | 246,940 | 8.26 |
| | 17/08/2005 | 17/08/2005 to | 16/08/2015 | 2.935 | 210,600 | — | — | 210,600 | — |
| | 17/08/2005 | 17/08/2006 to | 16/08/2015 | 2.935 | 210,600 | — | — | 210,600 | — |
| | 17/08/2005 | 17/08/2007 to | 16/08/2015 | 2.935 | 210,600 | — | — | 210,600 | — |
| | 17/08/2005 | 17/08/2008 to | 16/08/2015 | 2.935 | 210,600 | — | — | 210,600 | — |
| | 17/08/2005 | 17/08/2009 to | 16/08/2015 | 2.935 | 421,200 | 210,600 | — | 210,600 | 7.96 |
| | 17/08/2005 | 01/09/2009 to | 16/08/2015 | 2.935 | 1,474,200 | — | 1,474,200 | — | — |
| | 17/08/2005 | 01/09/2010 to | 16/08/2015 | 2.935 | 1,474,200 | — | 1,474,200 | — | — |
| | 01/11/2005 | 01/11/2005 to | 31/10/2015 | 2.802 | 22,120 | 22,120 | — | — | 8.96 |
| | 01/11/2005 | 01/11/2006 to | 31/10/2015 | 2.802 | 42,120 | 42,120 | — | — | 8.96 |
| | 01/11/2005 | 01/11/2007 to | 31/10/2015 | 2.802 | 497,016 | 421,200 | — | 75,816 | 8.62 |
| | 01/11/2005 | 01/11/2008 to | 31/10/2015 | 2.802 | 1,139,536 | 1,021,320 | — | 118,216 | 7.90 |
| | 01/11/2005 | 01/11/2009 to | 31/10/2015 | 2.802 | 1,423,656 | 926,400 | — | 497,256 | 8.23 |
| | 31/08/2006 | 01/04/2007 to | 30/08/2016 | 3.837 | 15,763,350 | 15,300,030 | — | 463,320 | 8.29 |
| | 31/08/2006 | 01/04/2008 to | 30/08/2016 | 3.837 | 21,668,740 | 21,100,120 | — | 568,620 | 8.05 |
| | 31/08/2006 | 01/04/2009 to | 30/08/2016 | 3.837 | 23,281,050 | 22,712,430 | — | 568,620 | 8.28 |
| | 31/08/2006 | 01/04/2010 to | 30/08/2016 | 3.837 | 24,176,880 | 22,290,490 | 210,600 | 1,675,790 | 8.85 |
| | 31/08/2006 | 01/04/2011 to | 30/08/2016 | 3.837 | 24,176,880 | — | 210,600 | 23,966,280 | — |
| | 24/10/2008 | 24/10/2008 to | 23/10/2018 | 3.846 | 1,580,800 | 1,456,000 | — | 124,800 | 8.10 |
| | 24/10/2008 | 24/10/2009 to | 23/10/2018 | 3.846 | 1,268,800 | 491,630 | 624,000 | 153,170 | 7.98 |
| | 24/10/2008 | 24/10/2010 to | 23/10/2018 | 3.846 | 1,268,800 | — | 624,000 | 644,800 | — |
| | 24/10/2008 | 24/10/2011 to | 23/10/2018 | 3.846 | 1,268,800 | — | 624,000 | 644,800 | — |
| | 24/10/2008 | 24/10/2012 to | 23/10/2018 | 3.846 | 1,268,800 | — | 624,000 | 644,800 | — |
| ***Other Participants*** in aggregate | 01/11/2005 | 01/11/2008 to | 31/10/2015 | 2.802 | 210,600 | 210,600 | — | — | 6.85 |
| | 01/11/2005 | 01/11/2009 to | 31/10/2015 | 2.802 | 210,600 | 210,600 | — | — | 6.85 |
| | 31/08/2006 | 01/04/2008 to | 30/08/2016 | 3.837 | 1,300 | 1,300 | — | — | 6.85 |
| | 31/08/2006 | 01/04/2009 to | 30/08/2016 | 3.837 | 315,900 | 315,900 | — | — | 8.96 |
| | 31/08/2006 | 01/04/2010 to | 30/08/2016 | 3.837 | 1,053,000 | 867,300 | — | 185,700 | 8.39 |
| | 31/08/2006 | 01/04/2011 to | 30/08/2016 | 3.837 | 1,053,000 | — | — | 1,053,000 | — |
| **Total** | | | | | 210,369,088 | 103,359,560 | 5,865,600 | 101,143,928 | |

*Notes:*

1. *Shares for 103,327,440 exercised share options were allotted during the financial year (2009: 28,713,345 shares). Shares for 32,120 share options exercised in June 2010 were allotted in July 2010.*

2. *This represents weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised. A total of 103,359,560 share options were exercised during the financial year ended 30 June 2010 and the weighted average closing price of the share immediately before the dates on which the share options were exercised was HK$8.27 (2009: HK$5.58).*

3. *Movements of the share options granted to the directors of the Company are shown under the section headed "Directors' Interests in Securities".*

4. *No share options have been granted or cancelled during the financial year ended 30 June 2010.*

## RETIREMENT BENEFITS

Particulars of the Group's retirement benefits are set out in notes 2.15(i) and 9(b) to the financial statements.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the financial year under review.

## MAJOR SUPPLIERS AND CUSTOMERS

During the financial year under review, the percentage of the total purchases and sales attributable to the Group's major suppliers and customers were as follows:

| | **Percentage of total purchases** |
|---|---|
| The largest supplier | 39% |
| Five largest suppliers in aggregate | 53% |

| | **Percentage of total sales** |
|---|---|
| The largest customer | 2% |
| Five largest customers in aggregate | 9% |

The largest supplier of the Group, Fujian Chaoda Trading, is a 95% owned subsidiary of Fujian Chaoda Group Limited, a limited company incorporated in the PRC, which is owned as to 95% by Mr. Kwok Ho, the Chairman and a substantial shareholder of the Company.

Save as disclosed above, none of the directors of the Company or their respective associates or any shareholder (who to the knowledge of the directors own more than 5% of the Company's share capital) had an interest in any of the suppliers or customers disclosed above.

## CORPORATE GOVERNANCE

A report on the Company's corporate governance practices is set out on pages 13 to 19 of this annual report.

## CHANGE AND UPDATED INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

(1) Mr. Fung Chi Kin, an independent non-executive director of the Company, resigned as an independent non-executive director of Emperor Capital Group Limited, a company listed on the Stock Exchange, with effect from 31 May 2010.

(2) Changes in directors' emoluments during the financial year under review are set out in note 14 to the financial statements.

## AUDITORS

The financial statements for the financial year ended 30 June 2010 have been audited by Messrs. Grant Thornton who will retire at the 2010 Annual General Meeting and, being eligible, offer themselves for re-appointment. A resolution for re-appointing Messrs. Grant Thornton as auditors of the Company to hold office until the conclusion of the next annual general meeting will be proposed for the consideration of the shareholders at the 2010 Annual General Meeting.

On behalf of the Board

**Kwok Ho**
*Chairman*

Hong Kong, 18 October 2010

# Independent Auditors' Report

Grant Thornton
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Member of Grant Thornton International Ltd

**To the members of Chaoda Modern Agriculture (Holdings) Limited**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Chaoda Modern Agriculture (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 115, which comprise the consolidated and Company's statement of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditors' Report *(continued)*

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Grant Thornton**
*Certified Public Accountants*
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

18 October 2010

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2010

| | Notes | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|---|
| Turnover | 5 | **6,963,717** | 6,126,818 |
| Cost of sales | | **(2,386,353)** | (1,976,168) |
| **Gross profit** | | **4,577,364** | 4,150,650 |
| Other revenues | 6 | **45,704** | 59,817 |
| Gain arising from changes in fair value less estimated point-of-sale costs of biological assets | 19 | **153,480** | 18,492 |
| Selling and distribution expenses | | **(779,547)** | (699,874) |
| General and administrative expenses | | **(153,274)** | (219,588) |
| Research expenses | | **(27,078)** | (84,165) |
| Other operating expenses | 8 | **(248,046)** | (219,441) |
| **Profit from operations** | | **3,568,603** | 3,005,891 |
| Finance costs | 9(a) | **(79,291)** | (321,649) |
| Loss on disposals of available-for-sale investments | 20 | **—** | (31,713) |
| Share of net profit of associates | | **174,646** | 146,447 |
| Gain on deemed acquisition of additional interest in an associate | 25(b) | **1,678** | 5,856 |
| Loss on deemed disposals of interest in an associate | 25(c) | **(6,923)** | — |
| Loss on partial disposals of an associate | 25(d) | **(1,637)** | — |
| Gain on redemption of convertible bonds | 34 | **—** | 1,180,229 |
| **Profit before income tax** | 9 | **3,657,076** | 3,985,061 |
| Income tax expense | 10 | **(244)** | (233) |
| **Profit for the year** | | **3,656,832** | 3,984,828 |

# Consolidated Statement of Comprehensive Income *(continued)*

For the year ended 30 June 2010

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **Other comprehensive income, including reclassification adjustments** | | | |
| Exchange loss on translation of financial statements of foreign operations | | **(802)** | (1,141) |
| Release of exchange reserve upon repurchase and redemption of convertible bonds | | **—** | (278,360) |
| Release upon disposals of available-for-sale investments | | **—** | (34,080) |
| **Other comprehensive income for the year, including reclassification adjustments and net of tax** | | **(802)** | (313,581) |
| **Total comprehensive income for the year** | | **3,656,030** | 3,671,247 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | 11 | **3,658,874** | 3,986,381 |
| Non-controlling interests | | **(2,042)** | (1,553) |
| | | **3,656,832** | 3,984,828 |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **3,658,072** | 3,672,800 |
| Non-controlling interests | | **(2,042)** | (1,553) |
| | | **3,656,030** | 3,671,247 |
| **Earnings per share for profit attributable to the owners of the Company during the year** | | | |
| — Basic | 13(a) | **RMB1.18** | RMB1.55 |
| — Diluted | 13(b) | **RMB1.15** | RMB1.05 |

# Consolidated Statement of Financial Position

As at 30 June 2010

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **7,369,573** | 4,814,331 |
| Construction-in-progress | 17 | **270,690** | 932,997 |
| Prepaid premium for land leases | 18 | **5,420,459** | 4,808,876 |
| Biological assets | 19 | **2,628,101** | 1,769,100 |
| Deferred development costs | 21 | **33,730** | 26,980 |
| Deferred expenditure | 22 | **473,027** | 257,632 |
| Intangible assets | 23 | **888,800** | — |
| Interests in associates | 25 | **879,368** | 974,007 |
| | | **17,963,748** | 13,583,923 |
| **Current assets** | | | |
| Prepaid premium for land leases | 18 | **151,842** | 126,911 |
| Biological assets | 19 | **965,576** | 953,427 |
| Inventories | 26 | **36,912** | 16,470 |
| Trade receivables | 27 | **418,385** | 381,201 |
| Other receivables, deposits and prepayments | | **177,502** | 379,371 |
| Cash and cash equivalents | 28 | **2,044,349** | 3,106,713 |
| | | **3,794,566** | 4,964,093 |
| **Current liabilities** | | | |
| Amounts due to a related company | 29 | **51,618** | 60,512 |
| Trade and bills payables | 30 | **27,665** | 5,959 |
| Other payables and accruals | | **135,421** | 136,976 |
| Bank loans | 32 | **14,500** | 24,000 |
| Guaranteed senior notes | 33 | **—** | 1,542,571 |
| | | **229,204** | 1,770,018 |
| **Net current assets** | | **3,565,362** | 3,194,075 |
| **Total assets less current liabilities** | | **21,529,110** | 16,777,998 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 35 | **20,655** | 20,655 |
| **Net assets** | | **21,508,455** | 16,757,343 |

# Consolidated Statement of Financial Position *(continued)*

As at 30 June 2010

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to the owners of the Company** | | | |
| Share capital | 36 | **323,892** | 309,623 |
| Reserves | 38 | **20,920,824** | 16,444,166 |
| | | **21,244,716** | 16,753,789 |
| **Non-controlling interests** | | **263,739** | 3,554 |
| **Total equity** | | **21,508,455** | 16,757,343 |

**Kwok Ho**
*Director*

**Chan Chi Po Andy**
*Director*

# Statement of Financial Position

As at 30 June 2010

| | Notes | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **130** | 169 |
| Deferred expenditure | 22 | **—** | 3,724 |
| Interests in subsidiaries | 24 | **4,109,631** | 3,606,514 |
| | | **4,109,761** | 3,610,407 |
| **Current assets** | | | |
| Other receivables, deposits and prepayments | | **1,371** | 1,950 |
| Cash and cash equivalents | 28 | **41,382** | 1,107,438 |
| | | **42,753** | 1,109,388 |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | 31 | **180,914** | 2,282 |
| Other payables and accruals | | **6,531** | 57,172 |
| Guaranteed senior notes | 33 | **—** | 1,542,571 |
| | | **187,445** | 1,602,025 |
| **Net current liabilities** | | **(144,692)** | (492,637) |
| **Net assets** | | **3,965,069** | 3,117,770 |
| **EQUITY** | | | |
| Share capital | 36 | **323,892** | 309,623 |
| Reserves | 38 | **3,641,177** | 2,808,147 |
| **Total equity** | | **3,965,069** | 3,117,770 |

**Kwok Ho**
*Director*

**Chan Chi Po Andy**
*Director*

# Consolidated Statement of Cash Flows

For the year ended 30 June 2010

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income tax | **3,657,076** | 3,985,061 |
| Adjustments for: | | |
| Finance costs | **79,291** | 321,649 |
| Share of net profit of associates | **(174,646)** | (146,447) |
| Gain on deemed acquisition of additional interest in an associate | **(1,678)** | (5,856) |
| Loss on deemed disposals of interest in an associate | **6,923** | — |
| Loss on partial disposals of an associate | **1,637** | — |
| Interest income | **(6,000)** | (28,283) |
| Depreciation | **522,210** | 345,132 |
| Amortisation of prepaid premium for land leases | **126,725** | 110,247 |
| Gain on disposal of land use rights | **(1,686)** | — |
| Loss on disposals of property, plant and equipment | **31,636** | 3,526 |
| Impairment loss on property, plant and equipment | **—** | 37,900 |
| Amortisation of deferred development costs | **13,450** | 10,810 |
| Amortisation of deferred expenditure | **123,604** | 90,780 |
| Provision for impairment of trade receivables | **910** | — |
| Gain arising from changes in fair value less estimated point-of-sale costs of biological assets | **(153,480)** | (18,492) |
| Loss on disposals of available-for-sale investments | **—** | 31,713 |
| Gain on redemption of convertible bonds | **—** | (1,180,229) |
| Employee share option benefits | **15,785** | 84,940 |
| Gain on repurchase of convertible bonds | **—** | (1,379) |
| Operating profit before working capital changes | **4,241,757** | 3,641,072 |
| Increase in trade receivables, other receivables, deposits and prepayments | **(3,081)** | (48,216) |
| Increase in biological assets | **(686,586)** | (321,793) |
| (Increase)/Decrease in inventories | **(20,442)** | 4,815 |
| Increase in trade and bills payables, other payables and accruals | **768** | 4,208 |
| (Decrease)/Increase in amounts due to a related company | **(8,894)** | 14,193 |
| Cash generated from operations | **3,523,522** | 3,294,279 |
| Interest received | **6,000** | 28,283 |
| Finance costs paid | **(73,738)** | (123,030) |
| Dividends paid | **(133,684)** | (68,569) |
| Income tax paid | **(244)** | (233) |
| *Net cash generated from operating activities* | **3,321,856** | 3,130,730 |

# Consolidated Statement of Cash Flows *(continued)*

For the year ended 30 June 2010

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| **Cash flows from investing activities** | | |
| Acquisition of subsidiaries *(note 39)* | **1,392** | — |
| Purchases of property, plant and equipment | **(144,551)** | (5,779) |
| Proceeds from disposals of property, plant and equipment | **54,845** | 595 |
| Payments of construction-in-progress | **(2,376,019)** | (1,492,345) |
| Payments of deferred development costs | **(20,200)** | (5,000) |
| Payments of prepaid premium for land leases | **(744,100)** | (380,000) |
| Refunds of prepaid premium of land leases | **94,783** | — |
| Proceeds from disposal of land use rights | **35,857** | — |
| Proceeds from partial disposals of interest in an associate | **273,012** | — |
| Proceeds from disposals of available-for-sale investments | **—** | 84,687 |
| Payments of deferred expenditure | **(344,556)** | (108,163) |
| Additional investment in associates | **(1,809)** | (3,784) |
| Dividends received from an associate | **—** | 610 |
| *Net cash used in investing activities* | **(3,171,346)** | (1,909,179) |
| **Cash flows from financing activities** | | |
| Proceeds from issue of new shares | **—** | 1,924,393 |
| Proceeds from shares issued on exercise of share options | **340,948** | 76,757 |
| Share issue expenses | **—** | (48,637) |
| Repurchase and redemption of convertible bonds | **—** | (1,370,441) |
| Repayment of guaranteed senior notes | **(1,544,400)** | — |
| Capital contribution from non-controlling interests | **880** | — |
| New bank loans | **50,500** | 32,000 |
| Repayments of bank loans | **(60,000)** | (8,000) |
| *Net cash (used in)/generated from financing activities* | **(1,212,072)** | 606,072 |
| **Net (decrease)/increase in cash and cash equivalents** | **(1,061,562)** | 1,827,623 |
| **Cash and cash equivalents at beginning of the year** | **3,106,713** | 1,280,231 |
| **Effect of foreign exchange rate changes, net** | **(802)** | (1,141) |
| **Cash and cash equivalents at end of the year** *(note 28)* | **2,044,349** | 3,106,713 |

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2010

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Employee share-based compensation reserve RMB'000 | Capital redemption reserve RMB'000 | Exchange reserve RMB'000 | Investment revaluation reserve RMB'000 | Statutory reserves RMB'000 | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 July 2008 | 257,306 | 2,095,623 | 94,894 | 248,155 | 723 | 449,202 | 34,080 | 649,260 | 7,282,862 | 11,112,105 | 5,107 | 11,117,212 |
| Shares issued under share option scheme | 2,527 | 117,314 | — | (43,084) | — | — | — | — | — | 76,757 | — | 76,757 |
| Shares issued under share placements | 41,219 | 1,883,174 | — | — | — | — | — | — | — | 1,924,393 | — | 1,924,393 |
| Bonus issue | 8,571 | (8,571) | — | — | — | — | — | — | — | — | — | — |
| Share issue expenses | — | (48,637) | — | — | — | — | — | — | — | (48,637) | — | (48,637) |
| Employee share option benefits | — | — | — | 84,940 | — | — | — | — | — | 84,940 | — | 84,940 |
| 2007/2008 final dividends paid | — | — | — | — | — | — | — | — | (68,569) | (68,569) | — | (68,569) |
| Transactions with owners | 52,317 | 1,943,280 | — | 41,856 | — | — | — | — | (68,569) | 1,968,884 | — | 1,968,884 |
| Profit for the year | — | — | — | — | — | — | — | — | 3,986,381 | 3,986,381 | (1,553) | 3,984,828 |
| Other comprehensive income | | | | | | | | | | | | |
| — Currency translation differences | — | — | — | — | — | (1,141) | — | — | — | (1,141) | — | (1,141) |
| — Release of exchange reserve upon repurchase and redemption of convertible bonds | — | — | — | — | — | (278,360) | — | — | — | (278,360) | — | (278,360) |
| — Release upon disposals of available-for-sale investments | — | — | — | — | — | — | (34,080) | — | — | (34,080) | — | (34,080) |
| Total comprehensive income for the year | — | — | — | — | — | (279,501) | (34,080) | — | 3,986,381 | 3,672,800 | (1,553) | 3,671,247 |
| Appropriations | — | — | — | — | — | — | — | 28,909 | (28,909) | — | — | — |
| At 30 June 2009 | 309,623 | 4,038,903 | 94,894 | 290,011 | 723 | 169,701 | — | 678,169 | 11,171,765 | 16,753,789 | 3,554 | 16,757,343 |
| At 1 July 2009 | 309,623 | 4,038,903 | 94,894 | 290,011 | 723 | 169,701 | — | 678,169 | 11,171,765 | 16,753,789 | 3,554 | 16,757,343 |
| Shares issued for acquisition of subsidiaries *(note 39)* | 5,176 | 604,630 | — | — | — | — | — | — | — | 609,806 | 261,347 | 871,153 |
| Shares issued under share option scheme | 9,093 | 532,007 | — | (200,152) | — | — | — | — | — | 340,948 | — | 340,948 |
| Employee share option benefits | — | — | — | 15,785 | — | — | — | — | — | 15,785 | — | 15,785 |
| Capital contribution from non-controlling interests | — | — | — | — | — | — | — | — | — | — | 880 | 880 |
| 2008/2009 final dividends paid | — | — | — | — | — | — | — | — | (133,684) | (133,684) | — | (133,684) |
| Transactions with owners | 14,269 | 1,136,637 | — | (184,367) | — | — | — | — | (133,684) | 832,855 | 262,227 | 1,095,082 |
| Profit for the year | — | — | — | — | — | — | — | — | 3,658,874 | 3,658,874 | (2,042) | 3,656,832 |
| Other comprehensive income | | | | | | | | | | | | |
| — Currency translation differences | — | — | — | — | — | (802) | — | — | — | (802) | — | (802) |
| Total comprehensive income for the year | — | — | — | — | — | (802) | — | — | 3,658,874 | 3,658,072 | (2,042) | 3,656,030 |
| Release of exchange reserve upon repayment of guaranteed senior notes | — | — | — | — | — | (312,050) | — | — | 312,050 | — | — | — |
| Appropriations | — | — | — | — | — | — | — | 3,641 | (3,641) | — | — | — |
| **At 30 June 2010** | **323,892** | **5,175,540** | **94,894** | **105,644** | **723** | **(143,151)** | **—** | **681,810** | **15,005,364** | **21,244,716** | **263,739** | **21,508,455** |

# Notes to the Financial Statements

For the year ended 30 June 2010

## 1. GENERAL INFORMATION

Chaoda Modern Agriculture (Holdings) Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. Its registered office is P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies and its principal place of business is Room 2705, 27th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 15 December 2000.

The Company is an investment holding company. The principal activities and other particulars of the principal subsidiaries are set out in note 43. The Company and its subsidiaries are referred to as the "Group" hereafter. On 24 December 2009, the Group entered into an agreement with an independent third party in relation to the acquisition of 70% equity interest of Keen Spirit Global Limited and its subsidiaries (collectively referred to as the "Keen Spirit Group") (note 39). Details of the acquisition were set out in the Company's announcement dated 25 December 2009. Other than this acquisition, there were no significant changes in the Group's operations during the year.

The financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated.

The financial statements for the year ended 30 June 2010 were approved for issue by the board of directors on 18 October 2010.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements on pages 43 to 115 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collectively includes all applicable individual Hong Kong Financial Reporting Standard ("HKFRS"), Hong Kong Accounting Standard ("HKAS") and Interpretation issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new and amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 3.

The financial statements have been prepared under historical cost convention except for certain assets such as biological assets which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in the preparation of these financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

### 2.3 Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's statement of financial position, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date.

*For the year ended 30 June 2010*
Non-controlling (formerly known as "minority") interests in subsidiaries are identified separately from the Group's equity therein. Interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

*For the year ended 30 June 2009*
Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity owners of the Company. Profit or loss attributable to the non-controlling interests is presented separately in the consolidated statement of comprehensive income as an allocation of the Group's results. Where losses applicable to the interests of non-controlling shareholders exceeds the non-controlling interests in the subsidiaries's equity, the excess and further losses applicable to the interests of non-controlling shareholders are allocated against non-controlling interest to the extent that the non-controlling shareholders has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to non-controlling interests only after share of losses applicable to the interests of non-controlling shareholders previously absorbed by the Group has been recovered.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture.

In the consolidated financial statements, investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interests in the associates are carried at cost and adjusted for the post-acquisition changes in the Group's share of the associates' net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated profit or loss includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investments in associates recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interests in associates, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associates. For this purpose, the Group's interests in the associates are the carrying amount of the investments under the equity method together with the Group's long-term interests that in substance form part of the Group's net investments in the associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associates recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investments.

Goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investments. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investments in its associates. At each reporting date, the Group determines whether there is any objective evidence that the investments in associates are impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 2.9) of the associates and their carrying amounts.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associates' profit or loss in which the investments are acquired.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associates use accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associates' accounting policies to those of the Group when the associates' financial statements are used by the Group in applying the equity method.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.5 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. The gain or loss arising on retirement or disposal is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Depreciation is calculated using straight-line method to allocate their costs less their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Leasehold improvements | 2 to 10 years or over the lease term whichever is the shorter |
| Buildings | 33 to 50 years or over the lease term whichever is the shorter |
| Furniture, fixture and equipment | 5 to 20 years |
| Motor vehicles | 5 years |
| Farmland infrastructure | 5 to 20 years |
| Computer equipment | 5 years |

The assets' estimated residual values, depreciation method and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

### 2.6 Construction-in-progress

Construction-in-progress ("CIP") which mainly represents property, plant and equipment under construction is stated at cost less any impairment losses and is not depreciated. Cost comprises all direct and indirect costs incurred during the periods of construction, installation and testing. When the assets concerned are brought into use, the costs are reclassified to the appropriate category of property, plant and equipment and depreciation in accordance with the policies stated in note 2.5 above commences when the construction work is completed and the asset is ready for use.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.7 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*(i) Prepaid premium for land leases*

Prepaid premium for land leases include long-term prepaid rentals under operating leases and land use rights. These are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on straight-line method over the period of the respective leases.

Cost of land use rights represents up-front payments to acquire the rights to use the land on which various warehouses, office premises and processing factories of the Group are situated.

*(ii) Operating leases charges as the lessee*

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss using straight-line method over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the financial year in which they are incurred.

### 2.8 Intangible assets and research and development activities

*(i) Intangible assets (other than goodwill)*

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use.

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described below in note 2.9.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.8 Intangible assets and research and development activities *(continued)*

*(ii) Research and development activities*

Expenditure on research activities is recognised as an expense in the year in which it is incurred. Expenditure on development activities is capitalised when the Group can demonstrate the technical feasibility of completing the asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the financial period in which it is incurred. Amortisation of capitalised development costs is charged to profit or loss on straight-line method over the assets' estimated useful lives of not more than five years. Both the period and method of amortisation are reviewed annually. Development costs previously recognised as an expense are not recognised as an asset in the subsequent period.

### 2.9 Impairment of non-financial assets

Property, plant and equipment, CIP, intangible assets (other than goodwill), deferred development costs, deferred expenditure, prepaid premium for land leases, interests in subsidiaries and associates are subject to impairment testing.

Assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those of other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflow independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.10 Biological assets

Biological assets are living animals and/or plants managed by the Group which is involved in the agricultural activities of the transformation of biological assets for sale, into agricultural produce, or into additional biological assets. Biological assets are measured at fair value less estimated point-of-sale costs at initial recognition and at each reporting date. The fair value of biological assets is determined based on either the present value of expected net cash flows from the biological assets discounted at a current market-determined pre-tax rate or the market price with reference to the species, growing condition, costs incurred and expected yield of the crops.

The agricultural produce is initially measured at fair value less estimated point-of-sale costs at the time of harvest. The fair value of agricultural produce is measured at the market prices in the local market. The fair value less estimated point-of-sale costs at the time of harvest is deemed as the cost of agricultural produce for further processing.

The gain or loss arising on initial recognition of biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs is recognised in profit or loss for the financial year in which it arises.

### 2.11 Deferred expenditure

Deferred expenditure is stated at cost less accumulated amortisation and any impairment losses. Amortisation is charged to profit or loss on straight-line method over the period of three to ten years.

### 2.12 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.13 Revenue recognition

Revenue comprises the fair value of the consideration received and receivable for the sale of goods and rendering of services, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

(i) Sales of crops, livestock and milk are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has been passed;

(ii) Interest income is recognised on a time-proportion basis using the effective interest method;

(iii) Agency income is recognised when the agreed services are rendered; and

(iv) Dividend income is recognised when the right to receive payments is established.

### 2.14 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is Hong Kong dollars ("HK$"). The consolidated financial statements are presented in Renminbi ("RMB") since most of the companies comprising the Group are operating in RMB environment and the functional currency of most of the companies comprising the Group is RMB.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange reserve in equity.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.15 Employee benefits

*(i) Retirement benefit obligations*

The Group contributes to a defined contribution retirement benefit scheme (the "MPF scheme") under the Mandatory Provident Fund Scheme Ordinance for those employees in Hong Kong. The Group and its employees are each required to make contributions to the MPF scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the MPF scheme vest immediately and the assets of the MPF scheme are held separately from those of the Group in independently administered funds.

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

*(ii) Short-term employee benefits*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for unused annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

*(iii) Share-based employee compensation*

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the equity instruments awarded. The value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is recognised as an expense in profit or loss with a corresponding credit to employee share-based compensation reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

At the time when the share options are exercised, the amount previously recognised in employee share-based compensation reserve will be transferred to share premium. When the vested share options are lapsed, forfeited or still not exercised at the expiry date, the amount previously recognised in employee share-based compensation reserve will be transferred to retained profits.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.16 Inventories

The Group's inventories, comprising agricultural materials and merchandise purchased for resale, are carried at the lower of cost and net realisable value.

Costs of agricultural materials and merchandise purchased for resale are stated at their purchase costs calculated on a first-in, first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### 2.17 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.18 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

### 2.19 Financial assets

*Classification of financial assets*

Other than investments in subsidiaries and associates, the Group's financial assets are classified into (i) loans and receivables and (ii) available-for-sale financial assets (for the year ended 30 June 2009).

*(i)* *Loans and receivables*

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.19 Financial assets *(continued)*

*Classification of financial assets (continued)*

(ii) *Available-for-sale financial assets (for the year ended 30 June 2009)*

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in investment revaluation reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using effective interest method is recognised in profit or loss.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

*Recognition and derecognition of financial assets*

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

*Impairment of financial assets*

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.19 Financial assets *(continued)*

***Impairment of financial assets*** *(continued)*

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

*(i)* *Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

*(ii)* *Available-for-sale financial assets (for the year ended 30 June 2009)*

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in profit or loss. The subsequent increase in fair value is recognised in other comprehensive income.

The carrying amount of the financial assets that are stated at amortised cost is reduced by the impairment loss directly with the exception of trade receivables, where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to allowance account are reversed against the allowance account. Other changes in allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.20 Financial liabilities

The Group's financial liabilities include trade and bills payables, amounts due to a related company, other payables and accruals, bank loans, guaranteed senior notes and convertible bonds (for the year ended 30 June 2009).

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

*(i) Trade and bills payables, amounts due to a related company, other payables and accruals*

These are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

*(ii) Borrowings*

Borrowings include bank loans and guaranteed senior notes are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

*(iii) Convertible bonds at fair value through profit or loss (for the year ended 30 June 2009)*

Convertible bonds that will or may not be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are accounted as financial liabilities with embedded derivatives. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risk and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss.

Convertible bonds with embedded derivatives that are not closely related to the host debt contract are designated as a whole as financial liabilities at fair value through profit or loss. At each reporting date subsequent to initial recognition, the entire convertible bond is measured at fair value with changes in fair value recognised directly in profit or loss in the period in which they arise.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.20 Financial liabilities *(continued)*

*(iii) Convertible bonds at fair value through profit or loss (for the year ended 30 June 2009) (continued)*

Transaction costs that are directly attributable to the issue of the convertible bond designated as financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

— the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; or

— the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or

— the financial liability contains an embedded derivative that would need to be separately recorded.

### 2.21 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.22 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

### 2.23 Accounting for income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.23 Accounting for income taxes *(continued)*

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

    (i) the same taxable entity; or

    (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### 2.24 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major operations.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.25 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or is the close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## 3. ADOPTION OF NEW AND AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 July 2009:

| | |
|---|---|
| HKAS 1 (Revised 2007) | Presentation of financial statements |
| HKAS 23 (Revised 2007) | Borrowing costs |
| HKAS 27 (Revised 2008) | Consolidated and separate financial statements |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an investment in a subsidiary, jointly controlled entity or an associate |
| HKFRS 2 (Amendments) | Share-based payment — vesting conditions and cancellations |
| HKFRS 3 (Revised 2008) | Business Combination |
| HKFRS 7 (Amendments) | Improving disclosures about financial instruments |
| HKFRS 8 | Operating segments |
| Various | Annual improvements to HKFRSs 2008 |

Other than as noted below, the adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

## 3. ADOPTION OF NEW AND AMENDED HKFRSs *(continued)*

### HKAS 1 (Revised 2007) — Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. A third statement of financial position as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements. It also gives rise to additional disclosures.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting polices on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or the Company's statement of financial position at 1 July 2008 and accordingly the third statement of financial position as at 1 July 2008 is not presented.

### HKAS 27 (Amendments) — Cost of an investment in a subsidiary, jointly controlled entity or an associate

The amendment requires the investor to recognise dividends from a subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions are out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Company recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in profit or loss.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

The new accounting policy has been applied prospectively as required by these amendments to HKAS 27 and therefore no comparatives have been restated.

## 3. ADOPTION OF NEW AND AMENDED HKFRSs *(continued)*

### HKFRS 3 (Revised 2008) — Business combinations

The revised standard introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in the revised standard are as follows:

— Acquisition-related costs of the combination are recorded as an expense in profit or loss. Previously, these costs would have been accounted for as part of the cost of acquisition.

— The assets acquired and liabilities assumed are generally measured at their acquisition-date fair value unless the revised standard provides an exception and specific measurement rules.

— Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss. Previously, contingent consideration was recognised at the acquisition date only if its payment was probable.

The revised standard has been applied prospectively to business combinations for which the acquisition date is on or after 1 July 2009. The Group did not have business combination occurred in the current year and therefore the adoption of the revised standard did not have any impact on the results and financial position for the current and prior periods.

### HKAS 27 (Revised 2008) — Consolidated and separate financial statements

The adoption of HKFRS 3 (Revised 2008) required that HKAS 27 (Revised 2008) is adopted at the same time. The revised standard introduced changes to the accounting requirements for transactions with non-controlling interests and the loss of control of a subsidiary. Similar to HKFRS 3 (Revised 2008), the adoption of the revised standard is applied prospectively. The Group did not have transactions with non-controlling interests in the current year and did not dispose of any of its equity interests in its subsidiaries. Therefore, the adoption of the revised standard did not have any impact on the results and financial position for the current and prior periods.

Any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in deficit, the losses were only allocated to non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses.

## 3. ADOPTION OF NEW AND AMENDED HKFRSs *(continued)*

### HKFRS 8 — Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns.

### Annual improvements to HKFRSs 2008

In October 2008, the HKICPA issued its first annual improvements to HKFRSs which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. These amendments did not have any material impact on the results and financial position for the current and prior periods.

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors of the Company (the "Directors") anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

### HKFRS 9 — Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The Directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

### Annual improvements 2009

The HKICPA has issued Improvements to Hong Kong Financial Reporting Standards 2009. Most of the amendments become effective for annual periods beginning on or after 1 July 2010. The Group expects the amendment to HKAS 17 Leases to be relevant to the Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in HKAS 17. The Group will need to reassess the classification of its unexpired leases of land at 1 July 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The Directors are currently assessing the possible impact of the amendment on the Group's results and financial position in the first year of application.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### (i) Depreciation and amortisation

The Group depreciates its property, plant and equipment and amortises its prepaid premium for land leases, intangible assets, capitalised development costs and deferred expenditure in accordance with the accounting policies stated in note 2.5, note 2.7(i), note 2.8(i), note 2.8(ii) and note 2.11 respectively. The estimated useful lives reflect the Directors' estimates of the periods that the Group intends to derive future economic benefits from the use of these assets.

### (ii) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value-in-use calculations are undertaken, management estimates the expected future cash flows from the assets or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

### (iii) Impairment of loans and receivables

The Group's management assesses the impairment of loans and receivables on a regular basis. This assessment is based on the evaluation of collectability and ageing analysis of loans and receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these loans and receivables, including current creditworthiness and the past collection history of each customer/debtor. If the financial conditions of the customers/debtors of the Group were to deteriorate, resulting in impairment as to their ability to make payments, additional impairment losses may be required.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

### (iv) Valuation of biological assets

The Group's management determines the fair values less estimated point-of-sale costs of biological assets on initial recognition and at each reporting date with reference to the market-determined prices, cultivation area, species, growing conditions, costs incurred and expected yield of the crops and/or the professional valuation.

### (v) Valuation of intangible assets

The fair value of the intangible assets arising from the acquisition of the Keen Spirit Group (note 39) was approximately RMB888,800,000 at the acquisition date and are based on valuation report issued by an independent professional valuer. Such valuations are made based on certain assumptions, which are subject to uncertainties and might materially differ from the actual results. In making the judgement, reasonable consideration has been given to the underlying assumptions.

### (vi) Provision for income tax

The Group's operating subsidiaries in the PRC are subject to income taxes in the PRC. Determining income tax provisions involves the exercise of significant judgement on interpretation of the relevant tax rules and regulations. There may have transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made. The amount of income tax and therefore, profit or loss could be affected by any interpretations and clarifications which the tax authority may issue from time to time.

## 5. TURNOVER

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

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

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Sales of crops | **6,902,597** | 6,078,632 |
| Sales of livestock | **61,120** | 48,186 |
| | **6,963,717** | 6,126,818 |

## 6. OTHER REVENUES

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Interest income | **6,000** | 28,283 |
| Agency fee income | **9,212** | 2,297 |
| Gain on repurchase of convertible bonds | **—** | 1,379 |
| Gain on disposal of land use rights | **1,686** | — |
| Sales of milk | **18,241** | 18,734 |
| Sundry income | **10,565** | 9,124 |
| | **45,704** | 59,817 |

## 7. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major operations.

The Group's operating business are organised and managed separately according to the nature of products, which each segment representing a strategic business segment that offers different products in the PRC market. However, the Group's executive directors considered that over 90% of the Group's revenue, operating result and asset for both years ended 30 June 2010 and 2009 were mainly derived from its growing and sales of crops. Consequently, no operating segment analysis is presented.

The Company is an investment holding company and the principle place of the Group's operation is in the PRC. For the purpose of segment information disclosures under HKFRS 8, the Group regarded the PRC as its country of domicile. Over 90% of the Group's revenue and non-current assets are principally attributable to the PRC, being the single geographical region.

## 8. OTHER OPERATING EXPENSES

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Expenses incurred for fallow farmlands | **151,542** | 129,882 |
| Impairment loss on property, plant and equipment | **—** | 37,900 |
| Natural crop losses | **23,120** | 23,540 |
| Compensation paid for land leasing | **24,936** | 11,082 |
| Loss on disposals of property, plant and equipment | **31,636** | 3,526 |
| Plantation costs for windbreaks | **11,044** | 8,162 |
| Others | **5,768** | 5,349 |
| | **248,046** | 219,441 |

## 9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

### (a) Finance costs

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Bank and finance charges | **5,705** | 9,566 |
| Interest on bank loans wholly repayable within five years | **1,106** | 57 |
| Interest on guaranteed senior notes issued | **72,480** | 122,926 |
| Interest on convertible bonds | **—** | 189,100 |
| | **79,291** | 321,649 |

### (b) Staff costs (including directors' remuneration — note 14)

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Salaries, wages and other benefits | **625,523** | 582,359 |
| Employee share option benefits | **15,785** | 84,940 |
| Retirement benefit costs | **5,095** | 4,836 |
| | **646,403** | 672,135 |

### (c) Other items

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Auditors' remuneration | **4,205** | 3,927 |
| Amortisation of deferred development costs | **13,450** | 10,810 |
| Amortisation of prepaid premium for land leases, net of amount capitalised | **126,725** | 110,247 |
| Amortisation of deferred expenditure, net of amount capitalised | **123,604** | 90,780 |
| Cost of inventories sold | **2,386,353** | 1,976,168 |
| Depreciation of property, plant and equipment, net of amount capitalised | **522,210** | 345,132 |
| Operating lease expenses | | |
| — Land and buildings | **197,685** | 180,323 |
| — Motor vehicles | **102** | 102 |
| Provision for impairment of trade receivables | **910** | — |

## 10. INCOME TAX EXPENSE

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

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| Current tax | | |
| — PRC income tax *(note (i))* | **244** | 233 |
| — Hong Kong profits tax *(note (ii))* | **—** | — |
| | **244** | 233 |

*Notes:*

(i) According to the PRC tax law and its interpretation rules (the "PRC Tax Law"), enterprises that engage in qualifying agricultural business are eligible for certain tax benefits, including full enterprise income tax exemption or half reduction of enterprise income tax on profits derived from such business. Fuzhou Chaoda Agriculture Development Company Limited, the Group's principal subsidiary and other PRC subsidiaries engaged in qualifying agricultural business, which include growing and sales of crops and breeding and sales of livestock, are entitled to full exemption of enterprise income tax.

The enterprise income tax rate of other PRC subsidiaries of the Group not engaged in qualifying agricultural business is 25% (2009: 25%).

(ii) No provision for Hong Kong profits tax has been made as there is no estimated assessable profits (2009: Nil) for the Company and its subsidiaries operating in Hong Kong during the year.

Reconciliation between the Group's income tax expense and accounting profit at applicable tax rates are as follows:

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| Profit before income tax | **3,657,076** | 3,985,061 |
| Notional tax on profit before income tax, calculated at the rate applicable to profits in the tax jurisdictions concerned | **909,985** | 900,454 |
| Net tax effect of expense and income that are not deductible and taxable in determining taxable profit and tax allowance | **(3,718)** | (89,906) |
| Tax effect of unrecognised tax losses | **4,704** | 3,363 |
| Tax effect of previous years' unrecognised tax losses utilised this year | **(151)** | (261) |
| Tax effect of profit exempted from income tax as a result of tax benefits | **(910,576)** | (813,417) |
| Income tax expense | **244** | 233 |

## 11. PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Of the consolidated profit attributable to the owners of the Company of RMB3,658,874,000 (2009: RMB3,986,381,000), a loss of RMB119,240,000 (2009: profit of RMB742,885,000) has been dealt with in the financial statements of the Company.

Reconciliation of the above amounts to the Company's (loss)/profit for the year:

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| (Loss)/Profit dealt with in the Company's financial statements included in the consolidated profit attributable to the owners of the Company | **(119,240)** | 742,885 |
| Final dividends from subsidiaries related to the profits of the previous financial year, approved and paid during the year | **133,684** | 68,569 |
| Company's profit for the year *(note 38)* | **14,444** | 811,454 |

## 12. DIVIDENDS

### (a) Dividends payable to the owners of the Company attributable to the year:

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Proposed final dividend of HK$0.060 (2009: HK$0.050) per ordinary share | **172,561** | 133,313 |

At the meeting held on 18 October 2010, the Directors proposed a final dividend of HK$0.060 (equivalent to RMB0.052) per ordinary share. The proposed final dividend for the year ended 30 June 2010 is subject to the approval of the equity owners in the forthcoming annual general meeting and have not yet been accounted for in the current year's financial statements but will be reflected in the financial statements for the year ending 30 June 2011.

### (b) Dividends payable to the owners of the Company attributable to the previous financial year, approved and paid during the year:

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Final dividend of HK$0.050 (2009: HK$0.032) per ordinary share in respect of the previous financial year, approved and paid during the year | **133,684** | 68,569 |

## 13. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the owners of the Company of RMB3,658,874,000 (2009: RMB3,986,381,000) and the weighted average number of 3,093,954,000 (2009: 2,574,795,000) 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 the owners of the Company of RMB3,658,874,000 (2009: RMB2,993,873,000) and the weighted average number of 3,187,186,000 (2009: 2,843,942,000) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme and convertible bonds (which had been redeemed and repurchased for the year ended 30 June 2009).

The calculation of the diluted earnings per share is based on the following data:

*Profit attributable to the owners of the Company (diluted)*

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Profit attributable to the owners of the Company | **3,658,874** | 3,986,381 |
| Gain on redemption of convertible bonds | — | (1,180,229) |
| Gain on repurchase of convertible bonds | — | (1,379) |
| Interest on convertible bonds | — | 189,100 |
| Profit used to determine diluted earnings per share | **3,658,874** | 2,993,873 |

*Weighted average number of ordinary shares (diluted)*

| | **2010**<br>**Number of shares**<br>**'000** | 2009<br>Number of shares<br>'000 |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | **3,093,954** | 2,574,795 |
| Deemed issue of ordinary shares — share options | **93,232** | 95,238 |
| Deemed issue of ordinary shares — convertible bonds | — | 173,909 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | **3,187,186** | 2,843,942 |

## 14. DIRECTORS' REMUNERATION

Emoluments paid and payable to the Company's Directors for the year ended 30 June 2010 were as follows:

| Name of Directors | Fees RMB'000 | Basic salaries and bonus RMB'000 | Allowance RMB'000 | Retirement benefit scheme contributions RMB'000 | Employee share option benefits RMB'000 | Total emoluments RMB'000 |
|---|---|---|---|---|---|---|
| **Executive and Non-executive Directors** | | | | | | |
| Kwok Ho | — | 1,514 | 3,907 | 11 | — | 5,432 |
| Ip Chi Ming *(note (a))* | — | 1,144 | — | 11 | 29 | 1,184 |
| Chan Chi Po Andy | — | 1,690 | — | 11 | 29 | 1,730 |
| Chen Jun Hua | — | 673 | — | 11 | 29 | 713 |
| Huang Xie Ying (Wong Hip Ying) | — | 480 | — | — | 49 | 529 |
| Kuang Qiao (Fong Jao) | — | 295 | — | — | 49 | 344 |
| Li Yan (Lee Yan) | — | 183 | — | — | 49 | 232 |
| **Independent Non-executive Directors** | | | | | | |
| Fung Chi Kin | 343 | — | — | — | — | 343 |
| Tam Ching Ho | 343 | — | — | — | — | 343 |
| Luan Yue Wen | 238 | — | — | — | — | 238 |
| Lin Shun Quan | 60 | — | — | — | — | 60 |
| | 984 | 5,979 | 3,907 | 44 | 234 | 11,148 |

## 14. DIRECTORS' REMUNERATION *(continued)*

Emoluments paid and payable to the Company's Directors for the year ended 30 June 2009 were as follows:

| Name of Directors | Fees RMB'000 | Basic salaries and bonus RMB'000 | Allowance RMB'000 | Retirement benefit scheme contributions RMB'000 | Employee share option benefits RMB'000 | Total emoluments RMB'000 |
|---|---|---|---|---|---|---|
| Executive Directors | | | | | | |
| Kwok Ho | — | 1,373 | 4,435 | 11 | — | 5,819 |
| Ip Chi Ming | — | 959 | — | 11 | 6,029 | 6,999 |
| Chan Chi Po Andy | — | 1,232 | — | 11 | 6,029 | 7,272 |
| Chen Jun Hua | — | 515 | — | 11 | 6,029 | 6,555 |
| Huang Xie Ying (Wong Hip Ying) | — | 303 | — | — | 5,962 | 6,265 |
| Kuang Qiao (Fong Jao) | — | 189 | — | — | 5,962 | 6,151 |
| Li Yan (Lee Yan) | — | 131 | — | — | 4,058 | 4,189 |
| Independent Non-executive Directors | | | | | | |
| Fung Chi Kin | 317 | — | — | — | — | 317 |
| Tam Ching Ho | 317 | — | — | — | — | 317 |
| Luan Yue Wen | 211 | — | — | — | — | 211 |
| Lin Shun Quan | 60 | — | — | — | — | 60 |
| | 905 | 4,702 | 4,435 | 44 | 34,069 | 44,155 |

None of the Directors waived or has agreed to waive emoluments in respect of the years ended 30 June 2010 and 2009.

During the years ended 30 June 2010 and 2009, no emoluments were paid or payable by the Group to the Directors as an inducement to join the Group or upon joining the Group or as compensation for loss of office.

*Note:*

(a) Mr. Ip Chi Ming, previously an executive director of the Company, was re-designated as a non-executive director of the Company on 8 January 2010.

## 15. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals whose emoluments were the highest in the Group for the year include one (2009: two) Directors whose emoluments are reflected in the table presented in note 14 above. The emoluments paid and payable to the remaining four (2009: three) highest paid individuals during the year are as follows:

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| Salaries and other emoluments | **462** | 284 |
| Retirement benefit scheme contributions | **52** | 35 |
| Employee share option benefits | **12,497** | 22,801 |
| | **13,011** | 23,120 |

The emoluments of four (2009: three) individuals with the highest emoluments are within the following band:

| **Emoluments band** | **2010** **No. of individuals** | 2009 No. of individuals |
|---|---|---|
| HK$3,000,000 to HK$3,499,999 | **1** | — |
| HK$3,500,000 to HK$3,999,999 | **3** | — |
| HK$7,500,000 to HK$7,999,999 | — | 1 |
| HK$8,000,000 to HK$8,499,999 | — | 1 |
| HK$10,000,000 to HK$10,499,999 | — | 1 |

## 16. PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Leasehold improvements RMB'000 | Buildings RMB'000 | Furniture, fixtures and equipment RMB'000 | Motor vehicles RMB'000 | Farmland infrastructure RMB'000 *(note (a))* | Computer equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 July 2008 | 57,136 | 120,452 | 136,337 | 46,563 | 4,594,770 | 22,000 | 4,977,258 |
| Additions | — | — | 3,001 | 1,377 | 1,401 | — | 5,779 |
| Transferred from CIP *(note 17)* | 11,601 | — | 74 | — | 1,119,330 | — | 1,131,005 |
| Disposals | — | — | (981) | (2,005) | (4,696) | — | (7,682) |
| At 30 June 2009 and 1 July 2009 | 68,737 | 120,452 | 138,431 | 45,935 | 5,710,805 | 22,000 | 6,106,360 |
| Additions | 3,269 | — | 1,133 | 3,597 | 136,552 | — | 144,551 |
| Transferred from CIP *(note 17)* | — | — | 2,826 | — | 3,035,500 | — | 3,038,326 |
| Disposals | (8,701) | — | (24,181) | (2,342) | (150,863) | — | (186,087) |
| **At 30 June 2010** | **63,305** | **120,452** | **118,209** | **47,190** | **8,731,994** | **22,000** | **9,103,150** |
| **Accumulated depreciation and impairment loss** | | | | | | | |
| At 1 July 2008 | 7,487 | 15,485 | 75,817 | 16,662 | 761,583 | 22,000 | 899,034 |
| Charge for the year | 6,575 | 3,120 | 17,974 | 5,431 | 325,556 | — | 358,656 |
| Disposals | — | — | (673) | (712) | (2,176) | — | (3,561) |
| Impairment loss *(note (b))* | — | — | 23,529 | 209 | 14,162 | — | 37,900 |
| At 30 June 2009 and 1 July 2009 | 14,062 | 18,605 | 116,647 | 21,590 | 1,099,125 | 22,000 | 1,292,029 |
| Charge for the year | 6,209 | 3,120 | 4,065 | 5,831 | 521,929 | — | 541,154 |
| Disposals | (4,834) | — | (15,189) | (1,447) | (78,136) | — | (99,606) |
| **At 30 June 2010** | **15,437** | **21,725** | **105,523** | **25,974** | **1,542,918** | **22,000** | **1,733,577** |
| **Net book value** | | | | | | | |
| **At 30 June 2010** | **47,868** | **98,727** | **12,686** | **21,216** | **7,189,076** | **—** | **7,369,573** |
| At 30 June 2009 | 54,675 | 101,847 | 21,784 | 24,345 | 4,611,680 | — | 4,814,331 |

*Notes:*

(a) Farmland infrastructure includes films, green house facilities, ditches, roads and others.

(b) During the year ended 30 June 2009, the carrying amount of certain plant and equipment of a subsidiary engaged in the sales of ancillary food products in the PRC was written off as management expected that these assets would not have any economic benefits to the Group.

## 16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

### The Company

| | Leasehold improvements RMB'000 | Furniture, fixtures and equipment RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 July 2008 | 111 | 291 | 402 |
| Additions | — | 102 | 102 |
| At 30 June 2009 and 1 July 2009 | 111 | 393 | 504 |
| Additions | 27 | 5 | 32 |
| Disposals | — | (10) | (10) |
| **At 30 June 2010** | **138** | **388** | **526** |
| **Accumulated depreciation** | | | |
| At 1 July 2008 | 77 | 198 | 275 |
| Charge for the year | 21 | 39 | 60 |
| At 30 June 2009 and 1 July 2009 | 98 | 237 | 335 |
| Charge for the year | 15 | 56 | 71 |
| Disposals | — | (10) | (10) |
| **At 30 June 2010** | **113** | **283** | **396** |
| **Net book value** | | | |
| **At 30 June 2010** | **25** | **105** | **130** |
| At 30 June 2009 | 13 | 156 | 169 |

## 17. CONSTRUCTION-IN-PROGRESS — THE GROUP

| | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|
| At 1 July | **932,997** | 571,657 |
| Additions | **2,376,019** | 1,492,345 |
| Transferred to property, plant and equipment *(note 16)* | **(3,038,326)** | (1,131,005) |
| At 30 June | **270,690** | 932,997 |

## 18. PREPAID PREMIUM FOR LAND LEASES — THE GROUP

| | Long-term prepaid rentals RMB'000 | Land use rights RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 July 2008 | 4,813,783 | 158,313 | 4,972,096 |
| Additions | 380,000 | — | 380,000 |
| At 30 June 2009 and 1 July 2009 | 5,193,783 | 158,313 | 5,352,096 |
| Additions | 902,500 | — | 902,500 |
| Disposals | — | (34,343) | (34,343) |
| Early termination of leases | (100,500) | — | (100,500) |
| **At 30 June 2010** | **5,995,783** | **123,970** | **6,119,753** |
| **Accumulated amortisation** | | | |
| At 1 July 2008 | 276,774 | 16,073 | 292,847 |
| Amortisation for the year | 116,689 | 6,773 | 123,462 |
| At 30 June 2009 and 1 July 2009 | 393,463 | 22,846 | 416,309 |
| Amortisation for the year | 130,771 | 6,261 | 137,032 |
| Disposals | — | (172) | (172) |
| Early termination of leases | (5,717) | — | (5,717) |
| **At 30 June 2010** | **518,517** | **28,935** | **547,452** |
| **Net carrying value** | | | |
| **At 30 June 2010** | **5,477,266** | **95,035** | **5,572,301** |
| At 30 June 2009 | 4,800,320 | 135,467 | 4,935,787 |

| | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|
| Non-current portion | **5,420,459** | 4,808,876 |
| Current portion | **151,842** | 126,911 |
| Net carrying value at 30 June | **5,572,301** | 4,935,787 |

## 18. PREPAID PREMIUM FOR LAND LEASES — THE GROUP *(continued)*

The Group's interest in long-term prepaid rentals and land use rights represent the prepaid operating leases payments and their net carrying value are analysed as follows:

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Outside Hong Kong held on: | | |
| Leases of over 50 years | **916,997** | 572,893 |
| Leases of between 10 to 50 years | **4,655,304** | 4,362,894 |
| | **5,572,301** | 4,935,787 |

As at 30 June 2010, long-term prepaid rentals for the farmland which have not yet been occupied by the Group amounted to RMB616,500,000 (2009: RMB907,500,000).

## 19. BIOLOGICAL ASSETS — THE GROUP

| | Fruit trees and tea trees RMB'000 | Livestock RMB'000 | Vegetables RMB'000 | Trees in plantation forest RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 July 2008 | 1,405,903 | 37,402 | 788,204 | 121,407 | 2,352,916 |
| Additions | 189,356 | 51,697 | 1,884,664 | 159,241 | 2,284,958 |
| Decrease due to sales | (92,493) | (20,763) | (1,820,583) | — | (1,933,839) |
| (Loss)/Gain arising from changes in fair value less estimated point-of-sale costs | (21,927) | (24,648) | 101,142 | (36,075) | 18,492 |
| At 30 June 2009 and 1 July 2009 | 1,480,839 | 43,688 | 953,427 | 244,573 | 2,722,527 |
| Additions | 537,299 | 96,526 | 2,068,875 | 321,144 | 3,023,844 |
| Decrease due to sales | (231,370) | (33,913) | (2,040,891) | — | (2,306,174) |
| Gain/(Loss) arising from changes in fair value less estimated point-of-sale costs | 88,457 | (54,551) | (15,835) | 135,409 | 153,480 |
| **At 30 June 2010** | **1,875,225** | **51,750** | **965,576** | **701,126** | **3,593,677** |

## 19. BIOLOGICAL ASSETS — THE GROUP *(continued)*

Biological assets as at 30 June 2010 and 2009 are stated at fair values less estimated point-of-sale costs and are analysed as follows:

| | Fruit trees and tea trees RMB'000 | Livestock RMB'000 | Vegetables RMB'000 | Trees in plantation forest RMB'000 | 2010 Total RMB'000 | 2009 Total RMB'000 |
|---|---|---|---|---|---|---|
| Non-current portion | **1,875,225** | **51,750** | **—** | **701,126** | **2,628,101** | 1,769,100 |
| Current portion | **—** | **—** | **965,576** | **—** | **965,576** | 953,427 |
| | **1,875,225** | **51,750** | **965,576** | **701,126** | **3,593,677** | 2,722,527 |

(a) In accordance with the valuation report issued by Jones Lang LaSalle Sallmanns Limited, an independent professional valuer, the fair value less estimated point-of-sale costs of the fruit trees and tea trees is determined with reference to the present value of expected net cash flows from the biological assets discounted at a current market-determined pre-tax rate.

(b) The fair value of livestock is determined by the Directors with reference to market-determined prices with similar size, species and age.

(c) The fair value of vegetables is determined by the Directors with reference to market-determined prices, cultivation areas, species, growing conditions, cost incurred and expected yield of the crops.

(d) The trees in plantation forest represented the growing of eucalyptus (the "Eucalyptus"). In accordance with the valuation report issued by Jones Lang LaSalle Sallmanns Limited, an independent professional valuer, the fair value of the Eucalyptus is determined with reference to the present value of expected net cash flows from the biological assets discounted at a current market-determined pre-tax rate.

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

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Quantity Tonnes** | **Amount RMB'000** | Quantity Tonnes | Amount RMB'000 |
| Fruit and tea leaves | **61,308** | **333,645** | 29,458 | 148,419 |
| Vegetables | **2,713,404** | **6,481,658** | 2,477,666 | 5,890,419 |
| | **2,774,712** | **6,815,303** | 2,507,124 | 6,038,838 |

## 20. AVAILABLE-FOR-SALE INVESTMENTS — THE GROUP

The Group's available-for-sale investments ("AFS investments") represented the listed equity investment in Hong Kong and were carried at fair value based on the quoted market bid prices available on the Stock Exchange. During the year ended 30 June 2009, the Group's entire AFS investments were disposed of and a loss on disposals of approximately RMB31,713,000 was charged to the consolidated statement of comprehensive income.

## 21. DEFERRED DEVELOPMENT COSTS — THE GROUP

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Cost** | | |
| At 1 July | **82,749** | 77,749 |
| Additions | **20,200** | 5,000 |
| At 30 June | **102,949** | 82,749 |
| **Accumulated amortisation** | | |
| At 1 July | **55,769** | 44,959 |
| Amortisation for the year | **13,450** | 10,810 |
| At 30 June | **69,219** | 55,769 |
| **Net carrying value** | | |
| At 30 June | **33,730** | 26,980 |

## 22. DEFERRED EXPENDITURE

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Cost** | | | | |
| At 1 July | **513,674** | 407,638 | **31,919** | 31,919 |
| Additions | **344,556** | 108,163 | **—** | — |
| Write off | **(80,800)** | (2,127) | **(31,919)** | — |
| At 30 June | **777,430** | 513,674 | **—** | 31,919 |
| **Accumulated amortisation** | | | | |
| At 1 July | **256,042** | 158,418 | **28,195** | 21,811 |
| Amortisation for the year | **129,161** | 99,751 | **3,724** | 6,384 |
| Write off | **(80,800)** | (2,127) | **(31,919)** | — |
| At 30 June | **304,403** | 256,042 | **—** | 28,195 |
| **Net carrying value** | | | | |
| At 30 June | **473,027** | 257,632 | **—** | 3,724 |

*Note:*

Deferred expenditure includes soil activation expenditure and land improvement and maintenance expenditure.

## 23. INTANGIBLE ASSETS — THE GROUP

| | RMB'000 |
|---|---|
| **Cost** | |
| At 1 July 2008, 30 June 2009 and 1 July 2009 | — |
| Acquisition of subsidiaries *(note 39)* | **888,800** |
| **At 30 June 2010** | **888,800** |
| **Carrying value** | |
| **At 30 June 2010** | **888,800** |
| At 30 June 2009 | — |

As at 30 June 2010, intangible assets include the patent application rights made to the United States Patent and Trademark Office in relation to the patents which represent novel vaccine compositions and methods of vaccine preparation for veterinary and human diseases and oral vaccines produced and administered using edible micro-organism (the "Patents").

## 24. INTERESTS IN SUBSIDIARIES — THE COMPANY

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Investments in unlisted shares, at cost | **166,370** | 166,370 |
| Amounts due from subsidiaries | **3,943,261** | 3,440,144 |
| | **4,109,631** | 3,606,514 |

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Directors, the settlement of these amounts due is neither planned nor likely to occur in the foreseeable future and in substance, amounts due from subsidiaries are extensions of the Company's investments in these subsidiaries.

The Company's interests in certain subsidiaries were pledged as securities for the Company's issued guaranteed senior notes as at 30 June 2009 as detailed in note 33.

Particulars of the principal subsidiaries of the Company at 30 June 2010 are set out in note 43.

## 25. INTERESTS IN ASSOCIATES — THE GROUP

| | Note | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|---|
| Share of net assets | | **878,998** | 973,637 |
| Amounts due from an associate | (f) | **370** | 370 |
| | | **879,368** | 974,007 |

*Notes:*

(a) Particulars of the principal associate of the Group at 30 June 2010 are as follows:

| Name of company | Country of incorporation | Principal activity and place of operation | Particulars of issued and paid up capital | Interest held indirectly by the Company |
|---|---|---|---|---|
| Asian Citrus Holdings Limited ("Asian Citrus")# | Bermuda | Investment holding in Hong Kong | 852,650,094 ordinary shares of HK$0.01 each (2009: 77,055,980 ordinary shares of HK$0.1 each) | 22.81% (2009: 33.29%) |

\# Listed on both the Stock Exchange and the Alternative Investment Market of London Stock Exchange

As at 30 June 2010, the market value of equity interest in Asian Citrus held by the Group was approximately RMB936 million.

The Directors are of the opinion that a complete list of the particulars of all associates of the Group is of excessive length and therefore the above list contains only the particulars of an associate which principally affect the results or financial position of the Group.

(b) On 15 September 2009, Asian Citrus proposed a final dividend of RMB0.8 per share for the year ended 30 June 2009 with an option offering its shareholders a scrip dividend as an alternative to the final cash dividend. In November 2009, the Group elected to receive the scrip dividend. The proposed final dividend was approved on 11 December 2009. This resulted in a gain on deemed acquisition of additional interest in Asian Citrus of RMB1,678,000.

(c) Following the exercise of share options by the option holders of Asian Citrus during the year, the equity interest in Asian Citrus held by the Group was diluted, which resulting in a loss on deemed disposals of interest in an associate of RMB6,923,000.

(d) In October 2009 and April 2010, the Group had disposed certain ordinary shares of Asian Citrus, resulting in a loss on partial disposals of an associate of RMB1,637,000.

## 25. INTERESTS IN ASSOCIATES — THE GROUP *(continued)*

*Notes: (continued)*

(e) The following table illustrates the summarised consolidated financial information of the Group's principal associate, as extracted from its financial statements:

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Non-current assets | **2,766,971** | 2,391,589 |
| Current assets | **1,104,262** | 565,530 |
| Current liabilities | **(51,779)** | (51,796) |
| Turnover | **812,482** | 668,529 |
| Profit for the year | **585,467** | 440,061 |

(f) Amounts due from an associate are unsecured, interest-free and have no fixed terms of repayment.

## 26. INVENTORIES — THE GROUP

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Agricultural materials | **22,642** | 15,547 |
| Merchandise for resale | **14,270** | 923 |
| | **36,912** | 16,470 |

Agricultural materials mainly include seeds, fertilisers, pesticides and processing materials not yet utilised at year end. All inventories at the reporting dates were stated at cost.

## 27. TRADE RECEIVABLES — THE GROUP

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Trade receivables | **422,308** | 384,214 |
| Less: Allowance for doubtful debts *(note (b))* | **(3,923)** | (3,013) |
| | **418,385** | 381,201 |

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 the customers' credit worthiness.

The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. As the Group's trade receivables relate to a wide range of customers, there is no significant concentration of credit risk.

### (a) Ageing analysis

Ageing analysis of trade receivables (net of allowance for doubtful debts) is as follows:

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| 0–1 month | **400,000** | 360,107 |
| 1–3 months | **2,755** | 3,483 |
| Over 3 months | **15,630** | 17,611 |
| | **418,385** | 381,201 |

## 27. TRADE RECEIVABLES — THE GROUP *(continued)*

### (b) Impairment of trade receivables

Impairment losses on trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of amount is remote, in which case the impairment loss is written off against trade receivables directly.

Movements in the allowance for doubtful debts during the year are as follows:

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| At 1 July | **3,013** | 3,013 |
| Impairment losses recognised | **910** | — |
| At 30 June | **3,923** | 3,013 |

The aggregate carrying amount of the individually impaired trade receivables included in the allowance for doubtful debts are RMB3,923,000 (2009: RMB3,013,000). The individually impaired trade receivables related to customers that were in default or delinquency in payments.

Ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Neither past due nor impaired | **401,705** | 361,296 |
| 0–60 days past due | **1,719** | 2,297 |
| Over 60 days past due | **14,961** | 17,608 |
| | **418,385** | 381,201 |

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to a wide range of customers that have a good track record with the Group. Based on past experience, the Directors believe that no impairment loss is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 28. CASH AND CASH EQUIVALENTS

### The Group

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Cash at banks and in hand | **156,790** | 1,325,625 |
| Short-term bank deposits | **1,887,559** | 1,781,088 |
| | **2,044,349** | 3,106,713 |
| Denominated in: | | |
| RMB | **1,938,114** | 1,856,804 |
| HK$ | **96,445** | 1,225,169 |
| Others | **9,790** | 24,740 |
| | **2,044,349** | 3,106,713 |

### The Company

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Cash at banks and in hand | **5,158** | 1,085,435 |
| Short-term bank deposits | **36,224** | 22,003 |
| | **41,382** | 1,107,438 |
| Denominated in: | | |
| HK$ | **40,733** | 1,084,916 |
| Others | **649** | 22,522 |
| | **41,382** | 1,107,438 |

The Company's cash and cash equivalents of RMB41,382,000 (2009: RMB1,107,438,000) were all denominated in currencies other than RMB and kept in Hong Kong.

The conversion of RMB denominated balances kept in the PRC into foreign currencies and the transfer of these balances out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Cash at banks earn interest at floating rates based on the daily bank deposit rates. Short-term bank deposits are placed with the banks and earn interests at the respective short-term bank deposit rates. Short-term bank deposits as at 30 June 2010 and 2009 have a maturity within three months.

## 29. AMOUNTS DUE TO A RELATED COMPANY — THE GROUP

The balance arose from purchases of agricultural materials, as detailed in note 42(a), from a company of which Mr. Kwok Ho, the Chairman and the substantial shareholder of the Company, is a major shareholder. The balances were aged within 30 days as at the reporting dates.

The amounts due are unsecured, interest-free and repayable on demand.

## 30. TRADE AND BILLS PAYABLES — THE GROUP

Ageing analysis of trade and bills payables is as follows:

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| 0–1 month | **5,786** | 1,676 |
| 1–3 months | **12,492** | 1,156 |
| Over 3 months | **9,387** | 3,127 |
| | **27,665** | 5,959 |

As at 30 June 2010, bills payables amounting to RMB7,000,000 (2009: Nil) was secured by a corporate guarantee provided by one of the subsidiaries.

## 31. AMOUNTS DUE TO SUBSIDIARIES — THE COMPANY

The amounts due are unsecured, interest-free and repayable on demand.

## 32. BANK LOANS — THE GROUP

As at 30 June 2010 and 2009, the Group's bank loans were repayable within one year. The Group's bank loans, which were all denominated in RMB and interest bearing at fixed rates ranging from 5.10% to 5.58% (2009: 4.37% to 5.84%) per annum.

As at 30 June 2010, the Group had banking facilities totalling RMB110,000,000 (2009: RMB420,000,000), of which RMB14,500,000 (2009: RMB24,000,000) had been utilised. All banking facilities are secured by corporate guarantee provided by one of the subsidiaries (2009: Other than the banking facilities of RMB300,000,000 which was unsecured and had not yet been utilised, all banking facilities were secured by corporate guarantee provided by one of the subsidiaries).

## 33. GUARANTEED SENIOR NOTES — THE GROUP AND THE COMPANY

The Company issued US$225,000,000, 7.75% guaranteed senior notes due on 8 February 2010 (the "Guaranteed Senior Notes") in 2005 at an issue price of 98.985%. The Guaranteed Senior Notes were listed on the Singapore Exchange Securities Trading Limited and were guaranteed by certain subsidiaries bearing interest at 7.75% per annum, payable semi-annually in arrears.

The Guaranteed Senior Notes has been fully repaid upon its maturity on 8 February 2010.

## 34. CONVERTIBLE BONDS — THE GROUP AND THE COMPANY

In May 2006, the Company issued HK$1,344,000,000 (equivalent to approximately 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 were listed on the Stock Exchange and were guaranteed by certain subsidiaries of the Company.

During the year ended 30 June 2009, convertible bonds with principal amount of HK$35,000,000 were repurchased by the Company (the "Repurchase") from the market and a gain on repurchase of RMB1,379,000 was recognised. Subsequent to the Repurchase, the remaining convertible bonds were fully and early redeemed according to the terms and conditions of the convertible bonds.

Movements of the fair value of the convertible bonds are set out as below:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At 1 July | — | 2,084,589 |
| Gain on redemption of convertible bonds | — | (1,180,229) |
| Gain on repurchase of convertible bonds | — | (1,379) |
| Interest on convertible bonds | — | 189,100 |
| Repurchase and redemption of convertible bonds | — | (1,370,441) |
| Release of exchange reserve upon repurchase and redemption of convertible bonds | — | 278,360 |
| At 30 June | — | — |

## 35. DEFERRED TAX

### The Group

Under the PRC Tax Law, 10% withholding tax is levied on the foreign investor in respect of dividend distributions arising from a foreign investment enterprise's profit earned after 1 January 2008. Pursuant to the grandfathering treatments of the PRC Tax Law, dividends receivable by the Group from its PRC subsidiaries in respect of its undistributed retained earnings prior to 31 December 2007 are exempt from withholding tax.

As at 30 June 2010 and 2009, deferred tax liabilities of approximately RMB20,655,000 were recognised in respect of the undistributed retained earnings of the PRC subsidiaries. The aggregate amount of temporary differences associated with the PRC subsidiaries' undistributed retained earnings for which deferred tax liabilities have not been recognised are approximately RMB760,563,000 (2009: RMB431,103,000). No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of these PRC subsidiaries and it is probable that such differences will not be reversed in the foreseeable future.

At the reporting date, the Group had unrecognised deferred tax assets as follows:

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Tax losses available to set off future assessable profits* | **53,650** | 51,192 |
| Accelerated tax depreciation | **5,272** | 6,668 |
| | **58,922** | 57,860 |

* Deferred tax assets have not been recognised in respect of the tax losses as it is not certain that they can be utilised in the foreseeable future.

### The Company

The Company had unrecognised deferred tax assets arising from tax losses of RMB30,391,000 (2009: RMB30,391,000) at the reporting date. The tax losses can be carried forward indefinitely.

## 36. SHARE CAPITAL — THE GROUP AND THE COMPANY

| | Authorised ordinary shares of HK$0.1 each | | |
|---|---|---|---|
| | No. of shares ('000) | HK$'000 | RMB'000 |
| At 30 June 2009 and **30 June 2010** | 5,000,000 | 500,000 | 527,515 |

| | Issued and fully paid ordinary shares of HK$0.1 each | | |
|---|---|---|---|
| | No. of shares ('000) | HK$'000 | RMB'000 |
| At 1 July 2008 | 2,431,788 | 243,180 | 257,306 |
| Bonus Issue *(note (a))* | 97,399 | 9,739 | 8,571 |
| Shares issued under share option scheme | 28,713 | 2,871 | 2,527 |
| Shares issued under share placements *(note (b))* | 468,402 | 46,840 | 41,219 |
| At 30 June 2009 and 1 July 2009 | 3,026,302 | 302,630 | 309,623 |
| Shares issued under share option scheme | 103,327 | 10,333 | 9,093 |
| Shares issued for acquisition of subsidiaries *(note (c))* | 58,824 | 5,882 | 5,176 |
| **At 30 June 2010** | **3,188,453** | **318,845** | **323,892** |

*Notes:*

(a) On 21 October 2008, the Company made the bonus issue to its shareholders on the basis of one bonus share for every twenty-five shares of the Company recorded on the Register of Members of the Company on 10 December 2008 ("Bonus Issue"). The bonus shares were credited as fully paid by way of capitalisation of amount of HK$9,739,000 (equivalent to RMB8,571,000) in the share premium of the Company on 16 December 2008. The bonus shares ranked pari passu in all respects with the Company's shares and did not allot any fractions of bonus shares.

(b) On 19 February 2009, the Company entered into a placing of existing shares agreement and top up subscription of new shares agreement to place 80,402,000 ordinary shares of HK$0.1 each at a price of HK$5.00 each.

On 17 June 2009, the Company entered into a placing agreement to place 388,000,000 new ordinary shares of HK$0.1 each at a price of HK$4.60 each.

(c) On 7 January 2010, 58,823,500 new ordinary shares of HK$0.1 each of the Company were issued for the acquisition of the 70% equity interests in the Keen Spirit Group as detailed in note 39.

## 37. 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 for the primary purpose of providing incentives or rewards to selected participants, and will expire on 18 June 2012. Under the Scheme, the Company may grant options to any participant of certain defined categories. Saved as determined by the Directors and provided in the offer of the grant of the relevant option, there is no performance target requirement which must be achieved before the option can be exercised but the participant must remain in the categories upon exercise.

The total number of shares in respect of which options may be granted under the Scheme must not exceed 10% of the shares of the Company in issue as at the adoption date (the "Scheme Mandate"). Pursuant to a resolution passed at the extraordinary general meeting of the Company held on 14 February 2006, a refreshment of the Scheme Mandate was approved. The total number of shares to be allotted and issued pursuant to the grant or exercise of the options under the Scheme shall not exceed 10% of the total number of shares in issue as at 14 February 2006. The total number of shares issued and to be issued upon exercise of the options granted to a participant in any 12-month period must not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of the individual limit must be subject to shareholders' approval.

The option price is determined by the Board of Directors in its absolute discretion which, in any event, shall be at least the higher of (a) the closing price of the shares on the offer date; (b) the average closing price of the shares for the five business days immediately preceding the offer date; and (c) the nominal amount for the time being of each share.

Share options and weighted average exercise price for the reporting periods presented are as follows:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **No. of share options** | **Weighted average exercise price HK$** | No. of share options | Weighted average exercise price HK$ |
| Outstanding at 1 July | **210,369,088** | **3.035** | 202,730,763 | 3.041 |
| Granted during the year | **—** | **—** | 27,100,000 | 4.000 |
| Adjusted upon Bonus Issue | **—** | **—** | 9,073,170 | — |
| Exercised during the year | **(103,359,560)** | **3.749** | (28,413,345) | 3.369 |
| Lapsed during the year | **(5,865,600)** | **3.387** | (121,500) | 3.990 |
| Outstanding at 30 June | **101,143,928** | **2.284** | 210,369,088 | 3.035* |
| Exercisable at 30 June | **74,190,248** | **1.720** | 146,671,272 | 2.739* |

* The weighted average exercise price disclosed above have been adjusted for the effect of the Bonus Issue which became effective on 16 December 2008.

For the year ended 30 June 2010, the weighted average share price at the date of exercise of the share options was HK$8.39 (2009: HK$5.49).

# Notes to the Financial Statements *(continued)*

For the year ended 30 June 2010

## 37. SHARE OPTION SCHEME *(continued)*

The exercisable periods of share options of the Company are as follows:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| **Exercisable period** | **Number** | **Weighted average exercise price HK$** | Number | Weighted average exercise price HK$ |
| 1-7-2003 to 27-1-2013 | **22,113,000** | **1.500** | 22,113,000 | 1.500 |
| 1-1-2004 to 27-1-2013 | **22,113,000** | **1.500** | 22,113,000 | 1.500 |
| 1-1-2005 to 27-1-2013 | **22,113,000** | **1.500** | 22,113,000 | 1.500 |
| 17-8-2005 to 16-8-2015 | **210,600** | **2.935** | 210,600 | 2.935 |
| 1-11-2005 to 31-10-2015 | **—** | **—** | 22,120 | 2.802 |
| 4-11-2005 to 3-11-2015 | **—** | **—** | 421,200 | 2.815 |
| 17-8-2006 to 16-8-2015 | **210,600** | **2.935** | 210,600 | 2.935 |
| 1-11-2006 to 31-10-2015 | **—** | **—** | 42,120 | 2.802 |
| 4-11-2006 to 3-11-2015 | **—** | **—** | 421,200 | 2.815 |
| 1-1-2007 to 27-5-2014 | **246,940** | **2.279** | 446,940 | 2.279 |
| 1-4-2007 to 30-8-2016 | **463,320** | **3.837** | 15,763,350 | 3.837 |
| 17-8-2007 to 16-8-2015 | **210,600** | **2.935** | 634,400 | 2.935 |
| 1-11-2007 to 31-10-2015 | **75,816** | **2.802** | 497,016 | 2.802 |
| 4-11-2007 to 3-11-2015 | **—** | **—** | 421,200 | 2.815 |
| 1-4-2008 to 30-8-2016 | **568,620** | **3.837** | 21,670,040 | 3.837 |
| 17-8-2008 to 16-8-2015 | **210,600** | **2.935** | 842,400 | 2.935 |
| 24-10-2008 to 23-10-2018 | **2,244,800** | **3.846** | 13,360,800 | 3.846 |
| 1-11-2008 to 31-10-2015 | **118,216** | **2.802** | 1,350,136 | 2.802 |
| 4-11-2008 to 3-11-2015 | **—** | **—** | 421,200 | 2.815 |
| 1-4-2009 to 30-8-2016 | **568,620** | **3.837** | 23,596,950 | 3.837 |
| 17-8-2009 to 16-8-2015 | **210,600** | **2.935** | 2,316,600 | 2.935 |
| 1-9-2009 to 16-8-2015 | **—** | **—** | 1,474,200 | 2.935 |
| 24-10-2009 to 23-10-2018 | **153,170** | **3.846** | 1,268,800 | 3.846 |
| 1-11-2009 to 31-10-2015 | **497,256** | **2.802** | 1,634,256 | 2.802 |
| 4-11-2009 to 3-11-2015 | **—** | **—** | 1,263,600 | 2.815 |
| 1-4-2010 to 30-8-2016 | **1,861,490** | **3.837** | 25,229,880 | 3.837 |
| 1-9-2010 to 16-8-2015 | **—** | **—** | 1,474,200 | 2.935 |
| 24-10-2010 to 23-10-2018 | **644,800** | **3.846** | 1,268,800 | 3.846 |
| 1-4-2011 to 30-8-2016 | **25,019,280** | **3.837** | 25,229,880 | 3.837 |
| 24-10-2011 to 23-10-2018 | **644,800** | **3.846** | 1,268,800 | 3.846 |
| 24-10-2012 to 23-10-2018 | **644,800** | **3.846** | 1,268,800 | 3.846 |
| | **101,143,928** | **2.284** | 210,369,088 | 3.035 |

## 37. SHARE OPTION SCHEME *(continued)*

The Company's share options outstanding at 30 June 2010 had a weighted average remaining contractual life of 3.89 years (2009: 6.16 years).

The fair value of share options is determined at the date of grant under Binominal Option Pricing Model by an independent valuer and the following assumptions were used to calculate the fair value of share options:

| Date of grant | Option value | Exercise price | Risk-free interest rate | Expected volatility | Dividend yield | Life of options |
|---|---|---|---|---|---|---|
| 28 January 2003 | HK$0.79–HK$0.82 | HK$1.500 | 4.45% | 64% | 2.6% | 10 years |
| 28 May 2004 | HK$1.14–HK$1.33 | HK$2.279 | 4.54% | 64% | 2.6% | 10 years |
| 17 August 2005 | HK$1.51–HK$1.70 | HK$2.935 | 4.01% | 64% | 2.6% | 10 years |
| 1 November 2005 | HK$1.47–HK$1.60 | HK$2.802 | 4.46% | 64% | 2.6% | 10 years |
| 4 November 2005 | HK$1.42–HK$1.59 | HK$2.815 | 4.57% | 64% | 2.6% | 10 years |
| 31 August 2006 | HK$1.91–HK$2.10 | HK$3.837 | 4.21% | 61% | 2.3% | 10 years |
| 24 October 2008 | HK$2.08–HK$2.19 | HK$3.846 | 2.42% | 56% | 0.3% | 10 years |

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

## 38. RESERVES

### The Group

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| Share premium | | **5,175,540** | 4,038,903 |
| Capital reserve | (i) | **94,894** | 94,894 |
| Employee share-based compensation reserve | | **105,644** | 290,011 |
| Capital redemption reserve | | **723** | 723 |
| Exchange reserve | | **(143,151)** | 169,701 |
| Statutory reserves | (ii) | **681,810** | 678,169 |
| Retained profits | | **15,005,364** | 11,171,765 |
| | | **20,920,824** | 16,444,166 |

Movements of the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on page 50.

*Notes:*

(i) Capital reserve represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares in December 2000 over the nominal value of the share capital of the Company issued in exchange thereafter.

(ii) In accordance with the relevant PRC rules and regulations, certain subsidiaries of the Company are required to appropriate not less than 10% of their profits after tax to the respective statutory reserves, until the respective balances of the fund reach 50% of the respective registered capitals. Subject to certain restrictions as set out in the relevant PRC regulations, these statutory reserves may be used to offset against their respective accumulated losses, if any.

## 38. RESERVES *(continued)*

### The Company

| | Share premium RMB'000 | Employee share-based compensation reserve RMB'000 | Capital redemption reserve RMB'000 | Exchange reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 July 2008 | 2,296,288 | 248,155 | 723 | (258,800) | (1,927,972) | 358,394 |
| Shares issued under share option scheme | 117,314 | (43,084) | — | — | — | 74,230 |
| Shares issued under share placements | 1,883,174 | — | — | — | — | 1,883,174 |
| Bonus issue | (8,571) | — | — | — | — | (8,571) |
| Share issue expenses | (48,637) | — | — | — | — | (48,637) |
| Employee share option benefits | — | 84,940 | — | — | — | 84,940 |
| 2007/2008 final dividends paid | — | — | — | — | (68,569) | (68,569) |
| Transactions with owners | 1,943,280 | 41,856 | — | — | (68,569) | 1,916,567 |
| Profit for the year *(note 11)* | — | — | — | — | 811,454 | 811,454 |
| Other comprehensive income | | | | | | |
| — Currency translation differences | — | — | — | 92 | — | 92 |
| — Release of exchange reserve upon repurchase and redemption of convertible bonds | — | — | — | (278,360) | — | (278,360) |
| Total comprehensive income for the year | — | — | — | (278,268) | 811,454 | 533,186 |
| At 30 June 2009 and 1 July 2009 | 4,239,568 | 290,011 | 723 | (537,068) | (1,185,087) | 2,808,147 |
| Shares issued for acquisition of subsidiaries *(note 39)* | 604,630 | — | — | — | — | 604,630 |
| Shares issued under share option scheme | 532,007 | (200,152) | — | — | — | 331,855 |
| Employee share option benefits | — | 15,785 | — | — | — | 15,785 |
| 2008/2009 final dividends paid | — | — | — | — | (133,684) | (133,684) |
| Transactions with owners | 1,136,637 | (184,367) | — | — | (133,684) | 818,586 |
| Profit for the year *(note 11)* | — | — | — | — | 14,444 | 14,444 |
| Other comprehensive income | — | — | — | — | — | — |
| Total comprehensive income for the year | — | — | — | — | 14,444 | 14,444 |
| Release of exchange reserve upon repayment of guaranteed senior notes | — | — | — | (312,050) | 312,050 | — |
| **At 30 June 2010** | **5,376,205** | **105,644** | **723** | **(849,118)** | **(992,277)** | **3,641,177** |

## 39. ACQUISITION OF SUBSIDIARIES

On 24 December 2009, the Group entered into an agreement with an independent third party to acquire 70% equity interest of the Keen Spirit Group which is settled by way of issue of 58,823,500 new ordinary shares of the Company. More details were set out in the Company's announcement dated 25 December 2009.

The principal assets held by the Keen Spirit Group are the Patents (note 23). This acquisition of subsidiaries has been accounted for as acquisition of assets and liabilities as the Keen Spirit Group has not yet carried out any business upon completion of the acquisition. As the acquisition is settled by issue of the Company's shares, this is classified as an equity settled share-based payment transaction. The fair value of the consideration shares should be recognised based on the fair value of the net assets acquired.

Assets and liabilities arising from the acquisition are as follows:

| | RMB'000 |
|---|---|
| Intangible assets *(note 23)* | **888,800** |
| Other receivables | **344** |
| Cash and cash equivalents | **1,392** |
| Other payables and accruals | **(19,383)** |
| | **871,153** |
| Non-controlling interests | **(261,347)** |
| | **609,806** |

Total purchase consideration satisfied by:

| | RMB'000 |
|---|---|
| Issue of 58,823,500 new ordinary shares | **609,806** |

Net cash inflow arising on acquisition:

| | RMB'000 |
|---|---|
| Cash and cash equivalents in subsidiaries acquired | **1,392** |

There was no acquisition of subsidiaries during the year ended 30 June 2009.

## 40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### Major non-cash transactions

(a) As detailed in note 39, the purchase consideration of 70% of the equity interest in the Keen Spirit Group was satisfied by the issue of 58,823,500 new ordinary shares of HK$0.1 each of the Company.

(b) The partial consideration of investment in an associate and prepaid premium for land leases were settled by deposits of RMB8,800,000 and RMB158,400,000 respectively.

## 41. COMMITMENTS

### (a) Capital commitments

At the reporting date, the Group had the following capital commitments:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Contracted but not provided for: | | |
| Research and development expenditure | **17,000** | 41,200 |
| Purchases of property, plant and equipment | **11,719** | 65,646 |
| Premium payments for land leases | **600** | 600 |
| Investment in equity interests | **—** | 2,200 |
| Total | **29,319** | 109,646 |

At the reporting date, the Company had no significant capital commitment (2009: Nil).

## 41. COMMITMENTS *(continued)*

### (b) Operating lease commitments and arrangements

*As lessee*

At the reporting date, the Group had total future minimum lease payments, in respect of land and buildings, under non-cancellable operating leases falling due as follows:

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| Within one year | **210,330** | 189,770 |
| In the second to fifth years, inclusive | **804,380** | 728,282 |
| After five years | **3,268,580** | 3,057,384 |
| Total | **4,283,290** | 3,975,436 |

*As lessor*

At the reporting date, the Group had total future minimum lease receipts, in respect of land and buildings, under non-cancellable operating leases with its tenants falling due as follows:

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| Within one year | **2,224** | 1,069 |
| In the second to fifth years, inclusive | **9,457** | 4,085 |
| After five years | **2,273** | 1,066 |
| Total | **13,954** | 6,220 |

## 42. RELATED PARTY TRANSACTIONS

### (a) The Group entered into the following material transactions with a related party during the year:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Fujian Chaoda Agricultural Produce Trading Company Limited *(note (i))* | | |
| — Purchases of organic fertilisers *(note (ii))* | **677,554** | 661,351 |

*Notes:*

(i) The related party is a company in which Mr. Kwok Ho, the Chairman and the substantial shareholder of the Company, is a major shareholder.

(ii) The Directors are of the opinion that these transactions were conducted in the normal course of business at prices and terms no less than those charged to or contracted with other third parties.

### (b) Compensation of key management personnel of the Group

The Directors are of the opinion that the key management personnel were the Executive Directors of the Company, details of whose emoluments are set out in note 14 and certain highest paid employees whose remunerations are set out in note 15.

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of principal subsidiaries at 30 June 2010 are as follows:

| Name of company | Place of incorporation | Principal activity and place of operation | Particulars of issued/ registered and paid up capital | Interest held |
|---|---|---|---|---|
| **Held directly by the Company:** | | | | |
| Timor Enterprise Limited | British Virgin Islands | Investment holding in Hong Kong | 60,000 ordinary shares of US$1 each | 100% |
| Insight Decision Limited | British Virgin Islands | Investment holding in Hong Kong | 1 ordinary share of US$1 | 100% |
| Huge Market Investments Limited | British Virgin Islands | Investment holding in Hong Kong | 1 ordinary share of US$1 | 100% |
| Worthy Year Investments Limited | British Virgin Islands | Investment holding in Hong Kong | 1 ordinary share of US$1 | 100% |
| Great Challenge Developments Limited | British Virgin Islands | Investment holding in Hong Kong | 1 ordinary share of US$1 | 100% |
| Good Add Holdings Limited | British Virgin Islands | Investment holding in Hong Kong | 1 ordinary share of US$1 | 100% |
| Lead Rich Enterprises Limited | British Virgin Islands | Investment holding in Hong Kong | 1 ordinary share of US$1 | 100% |
| Chaoda Vegetable & Fruits Trading Limited | British Virgin Islands | Investment holding in Hong Kong | 1 ordinary share of US$1 | 100% |
| **Held indirectly by the Company:** | | | | |
| Fuzhou Chaoda Modern Agriculture Development Company Limited** | PRC | Growing and sales of crops, breeding and sales of livestock in the PRC | HK$1,300,000,000 | 100% |
| Fujian Chaoda Green Agriculture Development Company Limited * | PRC | Breeding and sales of livestock in the PRC | RMB80,000,000 | 100% |

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

| Name of company | Place of incorporation | Principal activity and place of operation | Particulars of issued/ registered and paid up capital | Interest held |
|---|---|---|---|---|
| **Held indirectly by the Company:** *(continued)* | | | | |
| 福建超大畜牧業有限公司 *** | PRC | Provision of agency service in the PRC | RMB80,000,000 | 100% |
| Chaoda Vegetable & Fruits Limited | Hong Kong | Distribution and trading of crops in Hong Kong | 100,000 ordinary shares of HK$1 each | 100% |
| 臨海超大現代農業發展有限公司* | PRC | Growing and sales of crops in the PRC | US$390,000 | 100% |
| Fujian Chaoda Liancheng Foodstuffs Company Limited * | PRC | Sales of ancillary food products in the PRC | RMB15,000,000 | 91% |
| Desire Star (Fujian) Development Company Limited ** | PRC | Property holding in the PRC | US$9,860,000 | 100% |
| Jiangxi Nanfeng Chaoda Fruits Company Limited * | PRC | Growing and sales of fruits in the PRC | RMB10,000,000 | 100% |
| 福州超大嘉和茶業有限公司*** | PRC | Growing and sales of tea leaves in the PRC | RMB6,000,000 | 100% |
| 雲霄超大木業有限公司*** | PRC | Growing and sales of timbers in the PRC | RMB6,000,000 | 100% |
| 慶元超大運輸有限公司*** | PRC | Provision of transportation services in the PRC | RMB20,000,000 | 80% |

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

| Name of company | Place of incorporation | Principal activity and place of operation | Particulars of issued/ registered and paid up capital | Interest held |
|---|---|---|---|---|
| **Held indirectly by the Company:** *(continued)* | | | | |
| Inner Mongolia Chaoda Stockbreeding Co., Ltd * | PRC | Breeding and sales of livestock in the PRC | RMB100,000,000 | 100% |
| 超大(上海)食用菌有限公司** | PRC | Sales of ancillary food products in the PRC | RMB1,500,000 | 100% |
| 福州超大貿易有限公司*** | PRC | Sales of crops in the PRC | RMB30,000,000 | 100% |
| 北京傑志環球生物科技有限公司*** | PRC | Research and development of organism technologies in the PRC | HK$2,000,000 | 70% |
| Keen Spirit Global Limited | British Virgin Islands | Investment holding in Hong Kong | 100 ordinary share of US$1 each | 70% |
| VaxGene Corporation | British Virgin Islands | Research and development of organism technologies in Hong Kong | 50,000 ordinary share of US$1 each | 70% |

* Sino-foreign owned equity joint ventures
** Wholly foreign owned enterprises
*** Private limited liability companies

## 44. FINANCIAL GUARANTEE CONTRACTS — THE COMPANY

As at 30 June 2010, there was no financial guarantee contract obtained by the Company.

As at 30 June 2009, the Company's Guaranteed Senior Notes were guaranteed by certain subsidiaries of the Company as detailed in note 33.

## 45. RISK MANAGEMENT OBJECTIVES AND POLICIES

### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial market and seeks to minimise potential adverse effects on the Group's financial performance.

*(i) Currency risk*

As the Group's sales and purchases are mainly in RMB, the currency risk resulting from daily operations is considered not significant. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

*(ii) Credit risk*

Most of the Group's sales are cash on delivery which significantly reduces the Group's exposure on customers' default in repayment. In respect of the credit sales, the Group also has policies in place to ensure trading with customers with appropriate credit history and performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances.

The credit risk on cash and cash equivalents is limited because the major counterparties are reputable banks operating in Hong Kong and in the PRC. Other than the concentration of cash and cash equivalents which are deposited with several reputable banks in Hong Kong and in the PRC, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 27.

## 45. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (a) Financial risk factors *(continued)*

*(iii) Liquidity risk*

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations, investment opportunities, expected expansion and to meet its debt obligations as they fall due. The Group finances its working capital requirements mainly by the funds generated from its operations.

The following tables detail the remaining contractual maturities at the reporting date of the Group's and the Company's financial liabilities, which are based on the contractual undiscounted payments (including interest payments computed using contractual rates) and the earliest date the Group and the Company can be required to pay:

**The Group**

| | **Carrying amount RMB'000** | **Total contractual undiscounted payments RMB'000** | **Within 1 year or on demand RMB'000** |
|---|---|---|---|
| **As at 30 June 2010** | | | |
| Amounts due to a related company | **51,618** | **51,618** | **51,618** |
| Trade and bills payables | **27,665** | **27,665** | **27,665** |
| Other payables and accruals | **135,421** | **135,421** | **135,421** |
| Bank loans | **14,500** | **14,500** | **14,500** |
| | **229,204** | **229,204** | **229,204** |

| | Carrying amount RMB'000 | Total contractual undiscounted payments RMB'000 | Within 1 year or on demand RMB'000 |
|---|---|---|---|
| As at 30 June 2009 | | | |
| Amounts due to a related company | 60,512 | 60,512 | 60,512 |
| Trade payables | 5,959 | 5,959 | 5,959 |
| Other payables and accruals | 136,976 | 136,976 | 136,976 |
| Bank loans | 24,000 | 24,000 | 24,000 |
| Guaranteed Senior Notes | 1,542,571 | 1,658,273 | 1,658,273 |
| | 1,770,018 | 1,885,720 | 1,885,720 |

## 45. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (a) Financial risk factors *(continued)*

*(iii) Liquidity risk (continued)*

**The Company**

| | Carrying amount RMB'000 | Total contractual undiscounted payments RMB'000 | Within 1 year or on demand RMB'000 |
|---|---|---|---|
| **As at 30 June 2010** | | | |
| Amounts due to subsidiaries | **180,914** | **180,914** | **180,914** |
| Other payables and accruals | **6,531** | **6,531** | **6,531** |
| | **187,445** | **187,445** | **187,445** |

| | Carrying amount RMB'000 | Total contractual undiscounted payments RMB'000 | Within 1 year or on demand RMB'000 |
|---|---|---|---|
| As at 30 June 2009 | | | |
| Amounts due to a subsidiary | 2,282 | 2,282 | 2,282 |
| Other payables and accruals | 57,172 | 57,172 | 57,172 |
| Guaranteed Senior Notes | 1,542,571 | 1,658,273 | 1,658,273 |
| | 1,602,025 | 1,717,727 | 1,717,727 |

*(iv) Interest rate risk*

The Group's bank borrowings amounted to RMB14,500,000 (2009: RMB24,000,000) of which interests are charged at fixed rates ranging from 5.10% to 5.58% (2009: 4.37% to 5.84%) per annum as disclosed in note 32. The Group does not have any borrowings which bears floating interest rates. The Group's interest rate risk primarily relates to the interest bearing bank balances. The Group currently has not used any interest rate swaps to hedge its exposure to interest rate but may enter into interest rate hedging instruments in the future to hedge any significant interest rate exposure should the need arise.

The Directors are of the opinion that the impact of the Group's and the Company's sensitivity to the change in interest rate is insignificant.

## 45. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (b) Fair value estimation

The estimate of fair values of biological assets is disclosed in note 19. The fair values of other current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity.

### (c) Business risk

The Group is exposed to financial risks arising from changes in prices of agricultural produce and livestock which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include weather conditions and livestock diseases. The Group has little or no control over these conditions and factors.

## 46. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, raise new debt financing or issue new shares. No changes were made in the capital management objectives, policies or processes during the years ended 30 June 2010 and 30 June 2009. The Group monitors its capital using net debt to adjusted capital ratio. Net debt includes borrowings less cash and cash equivalents as shown in the consolidated statement of financial position. Adjusted capital represents equity attributable to the owners of the Company plus net debt.

The Group's excess of cash and cash equivalents over net debt as at the reporting date were presented as follows:

### The Group

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Bank loans | **14,500** | 24,000 |
| Guaranteed Senior Notes | **—** | 1,542,571 |
| Total borrowings | **14,500** | 1,566,571 |
| Less: Cash and cash equivalents | **(2,044,349)** | (3,106,713) |
| Excess of cash and cash equivalents over net debt | **(2,029,849)** | (1,540,142) |
| Equity attributable to the owners of the Company | **21,244,716** | 16,753,789 |
| Adjusted capital | **N/A** | N/A |
| **Net debt to adjusted capital ratio** | **N/A** | N/A |

## 47. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts of the Group's and the Company's financial assets and liabilities recognised at the reporting date may also be categorised as follows. See notes 2.19 and 2.20 for explanations on how the category of financial instruments affects their subsequent measurement.

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| **Financial assets** | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Loan and receivables | | | | |
| — Trade receivables | **418,385** | 381,201 | **—** | — |
| — Other receivables | **99,414** | 261,773 | **1,371** | 1,950 |
| — Cash and cash equivalents | **2,044,349** | 3,106,713 | **41,382** | 1,107,438 |
| | **2,562,148** | 3,749,687 | **42,753** | 1,109,388 |

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| **Financial liabilities** | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Financial liabilities measured at amortised cost | | | | |
| — Amounts due to a related company | **51,618** | 60,512 | **—** | — |
| — Amounts due to subsidiaries | **—** | — | **180,914** | 2,282 |
| — Trade and bills payables | **27,665** | 5,959 | **—** | — |
| — Other payables and accruals | **135,421** | 136,976 | **6,531** | 57,172 |
| — Bank loans | **14,500** | 24,000 | **—** | — |
| — Guaranteed Senior Notes | **—** | 1,542,571 | **—** | 1,542,571 |
| | **229,204** | 1,770,018 | **187,445** | 1,602,025 |

## 48. EVENT AFTER THE REPORTING DATE

### (i) Issue of the convertible bonds

On 17 August 2010, the Company and the subscribers entered into the bond subscription agreement pursuant to which the subscribers agreed to subscribe for the 3.7% secured guaranteed convertible bonds due 2015 in the aggregate principal amount of up to US$200 million to be guaranteed by the Company's certain subsidiaries (the "Convertible Bonds"). Further details of the issue of the Convertible Bonds were set out in the announcement of the Company dated 17 August 2010.

### (ii) Placing of existing shares and top-up subscription of new shares

On 16 August 2010, the Company entered into a placing of existing shares and top-up subscription of new shares agreement for a share placement of a total of 154,838,000 ordinary shares of the Company at a placing price of HK$7.53 per share (the "Share Placing"). Further details of the Share Placing were set out in the announcement of the Company dated 17 August 2010.

### (iii) Issue of call option

On 17 August 2010, the Company entered into the option agreement in relation to the issue of call options pursuant to which the holders of the call options are in aggregate entitled to require the Company to issue up to a maximum of 103,300,000 shares (subject to adjustment) at strike price of HK$7.9065 per share (subject to adjustment) (the "Call Option"). Further details of the issue of Call Option were set out in the announcement of the Company dated 17 August 2010.

# Five Year Financial Summary

For the year ended 30 June 2010

A summary of the consolidated results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

## RESULTS

| | Year ended 30 June | | | | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | **2010** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Turnover | 2,797,707 | 3,849,930 | 5,032,594 | 6,126,818 | **6,963,717** |
| Profit before income tax | 1,358,284 | 1,735,287 | 1,972,945 | 3,985,061 | **3,657,076** |
| Income tax expense | (344) | (468) | (20,679) | (233) | **(244)** |
| Profit for the year | 1,357,940 | 1,734,819 | 1,952,266 | 3,984,828 | **3,656,832** |
| Profit for the year attributable to: | | | | | |
| Owners of the Company | 1,358,235 | 1,732,724 | 1,955,757 | 3,986,381 | **3,658,874** |
| Non-controlling interests | (295) | 2,095 | (3,491) | (1,553) | **(2,042)** |
| | 1,357,940 | 1,734,819 | 1,952,266 | 3,984,828 | **3,656,832** |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 30 June | | | | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | **2010** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Total assets | 10,427,974 | 12,650,912 | 14,946,938 | 18,548,016 | **21,758,314** |
| Total liabilities | (3,359,270) | (3,379,401) | (3,829,726) | (1,790,673) | **(249,859)** |
| Non-controlling interests | (4,503) | (6,598) | (5,107) | (3,554) | **(263,739)** |
| Total equity attributable to the owners of the Company | 7,064,201 | 9,264,913 | 11,112,105 | 16,753,789 | **21,244,716** |