CHAODA MODERN AGRICULTURE (HOLDINGS) LIMITED
超大現代農業（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 682)

PROPOSED ISSUE OF SENIOR NOTES

The Company proposes to conduct an international offering of guaranteed senior notes and will commence a series of presentations beginning on or around April 28, 2011 to institutional investors in Asia and Europe. In connection with the offering, the Company will provide certain institutional investors with recent corporate and financial information regarding the Group, including updated risk factors, management's discussion and analysis, description of agricultural business, related party transactions and indebtedness information, which information may not have previously been made public. A summary of the updated information which the Company considers to be material to the operation of the Company is set out in this announcement, and an extract of such recent information is attached to this announcement, and can also be viewed at the Company's websites www.irasia.com/listco/hk/chaoda and www.chaoda.com.hk at approximately the same time that such information is released to the institutional investors.

The completion of the Proposed Notes Issue is subject to market conditions and investor interest. Citi and Credit Suisse as the joint global coordinators and Citi, Credit Suisse and Merrill Lynch International as the joint lead managers and the joint bookrunners, are managing the Proposed Notes Issue. The Company intends to use the proceeds of the Notes to finance capital expenditures, including the expansion of the Group's production bases (including but not limited to those in Fujian, Hebei, Hubei, Jiangsu and Hainan provinces), as well as infrastructure development for the Group's production bases, and for general corporate purposes. The Company may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of proceeds.

Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. Admission to the Official List of the SGX-ST and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the Company or the Notes.

As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialise. Investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company. Further announcement in respect of the Proposed Notes Issue will be made by the Company should the Purchase Agreement be signed.

THE PROPOSED NOTES ISSUE

Introduction

The Company proposes to conduct an international offering of guaranteed senior notes and will commence a series of presentations beginning on or around April 28, 2011 to institutional investors in Asia and Europe. In connection with the offering, the Company will provide certain institutional investors with recent corporate and financial information regarding the Group, including updated risk factors, management's discussion and analysis, description of agricultural business, related party transactions and indebtedness information, which information may not have previously been made public. A summary of the updated information which the Company considers to be material to the operation of the Company is set out in this announcement, and an extract of such recent information is attached to this announcement, and can also be viewed at the Company's websites www.irasia.com/listco/hk/chaoda and www.chaoda.com.hk at approximately the same time that such information is released to the institutional investors.

The completion of the Proposed Notes Issue is subject to market conditions and investor interest. Citi and Credit Suisse as the joint global coordinators and Citi, Credit Suisse and Merrill Lynch International as the joint lead managers and the joint bookrunners, are managing the Proposed Notes Issue. The Notes will only be offered outside the United States in offshore transactions to non-U.S. persons in compliance with Regulation S under the Securities Act. None of the Notes will be offered to the public in Hong Kong.

Reasons for the Proposed Notes Issue

The Group is a leading producer of agricultural produce in China. The Group grows crops, principally vegetables and fruit, in its strategically located production bases across China. The Group operates an industrialized farming business model, extending from cultivation to the distribution and marketing of agricultural produce. The Group employs standardized production processes and a centralized management structure, and through its large-scale farming operations and extensive distribution network, the Group supplies quality agricultural produce to a diversified customer base in the domestic market and in international markets. As one of China's leading agricultural companies, the Group has and will continue to focus on its core business of cultivation and distribution of agricultural produce since it commenced operations in 1997. The Group cultivates quality agricultural produce from its own production bases on farmland consisting of vegetable lands, fruit gardens and tea gardens. The Group obtains land-use rights to its farmland through long-term leases, typically for periods of between 20 to 25 years for vegetable land, and

30 to 70 years for other farmland. Over the years, the Group has steadily expanded its production bases in strategic locations across China, covering different latitudes and elevations, from the eastern and the coastal regions to southern China and central China. As of December 31, 2010, the Group operated a total of 30 production bases covering 13 provinces and municipalities in the PRC, with a total cultivated agricultural land area of approximately 714,933 mu (approximately 47,662 hectares). In addition, as of the same date, the Group had entered into long-term leases for approximately 300,000 mu of land held as land reserves which it plans to convert into operating production bases in the next few years to support its growth. In addition to its core business of cultivation and distribution of agricultural produce, the Group also engages in the breeding and sale of livestock, principally goats and dairy cattle, and the operation of tree plantations for sale. The Group aims to further strengthen its market leadership through expanding its business and increasing its market share.

The Proposed Notes Issue is being undertaken to finance capital expenditures, including the expansion of the Group's production bases (including but not limited to those in Fujian, Hebei, Hubei, Jiangsu and Hainan provinces), as well as infrastructure development for the Group's production bases, and for general corporate purposes. The Company may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of proceeds.

Listing

Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. Admission to the Official List of the SGX-ST and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the Company or the Notes. No listing of the Notes has been sought in Hong Kong.

GENERAL

As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialise. Investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company.

A further announcement in respect of the Proposed Notes Issue will be made by the Company should the Purchase Agreement be signed.

UPDATED INFORMATION ABOUT THE COMPANY

Business Overview

The Group's industrialized farming business model involves the consolidation of fragmented farmland from local farmers in China. By achieving economies of scale, we are able to supply a large and stable supply of agricultural produce on a nationwide basis. This in turn allows us to bypass intermediaries and directly supply our produce to the major vegetable wholesale markets in China and have access to multiple distribution channels including domestic wholesalers, institutional customers and export customers. For the six months ended December 31, 2010, sales to domestic wholesale customers, institutional customers and export customers constituted approximately 69.1%, 5.1% and 25.8% of our total agricultural produce, respectively.

In 2008, we were selected by the Beijing Olympic Games Committee as a key vegetable supplier to the 2008 Beijing Olympic Games. We believe we were chosen because of our large production scale as well as our high quality control and safety standards. The PRC State Council and the Beijing Olympic Games Committee jointly awarded Fuzhou Chaoda, our principal subsidiary supplying vegetables to the 2008 Beijing Olympic Games, a Certificate of Honor. Fuzhou Chaoda is also a member of the International Federation of Organic Agriculture Movements, a leading international non-governmental organization in the food produce industry which formulates organic food standards.

Our turnover for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010 was RMB5,032.6 million, RMB6,126.8 million, RMB6,963.7 million and RMB3,835.3 million, respectively. For the same periods, our profit attributable to owners of the Company was RMB1,955.8 million, RMB3,986.4 million, RMB3,658.9 million and RMB1,546.8 million, respectively. Sales volume of our agricultural produce for the same periods was approximately 2.0 million tonnes, 2.5 million tonnes, 2.8 million tonnes and 1.4 million tonnes, respectively. Our net assets as of June 30, 2008, 2009 and 2010 and December 31, 2010 amounted to RMB11,117.2 million, RMB16,757.3 million, RMB21,508.5 million and RMB24,873.1 million, respectively.

Agricultural Produce Business

We are primarily engaged in the cultivation of quality agricultural produce in the PRC. We sell our agricultural produce mainly to wholesale markets and institutional customers in the PRC, as well as overseas markets through third-party export trading companies. We currently cultivate and sell two main categories of quality agricultural produce, namely vegetables and fruit. As of December 31, 2010, we produced more than 150 types of crop species commercially, comprising principally:

- *vegetables*: white cabbage/pak choy, baby white cabbage/baby pak choy, Shanghai cabbage, Chinese flowering cabbage/choy sum, broccoli, garlic bolt, chili pepper, turnip, bell pepper, water spinach/tung choy, potato, bitter melon, spinach, celery, lettuce, cucumber, long bean, carrot, eggplant, spring onion, Chinese kale/gai lan, onion, Italian lettuce, taro, winter melon, green bean, hairy bean, sweet pimento, pea pod, hairy melon, leek, Chinese celery, sweet corn, pumpkin, tomato, cauliflower, snow peas, okra, broad bean, green bean, sword bean, asparagus lettuce, loofah, lotus root, water bamboo, ginger, asparagus and calabash.

- *fruit*: watermelon, mandarin orange, honey pomelo, melon and loquat.

- *rice*: white, brown, black and Thai rice, as part of our crop rotation to maintain soil fertility.

In addition to our agricultural produce business, as of December 31, 2010, we hold approximately a 13.63% equity interest in Asian Citrus Holdings Limited, a company listed on the Stock Exchange and the Alternative Investment Market of the London Stock Exchange, which operates modern, mechanized and industrialized orange farms in the PRC.

Turnover from our agricultural produce business accounted for approximately 99.1%, 99.2%, 99.1% and 99.3% of our total turnover for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, respectively.

Locations of production bases

As of December 31, 2010, we operated a total of 30 production bases covering 13 provinces and municipalities in the PRC, including the provinces of Fujian, Jiangsu, Jilin, Shaanxi, Hebei, Hubei, Hunan, Shandong, Guangdong, Zhejiang, Jiangxi, and the municipalities of Beijing and Tianjin, with a total cultivated agricultural land area (excluding mountain area) of approximately 714,933 mu (approximately 47,662 hectares). As of December 31, 2010, approximately 76% of our total cultivated agricultural land area was used for the cultivation of vegetables, and approximately 24% of our total cultivated agricultural land area was used for the cultivation of fruit or tea. Our production bases are strategically located in different parts of the PRC and different areas within the same province or municipality in order to mitigate the impact of natural disasters or adverse weather conditions such as droughts, floods, hailstorms, snowstorms, typhoons and earthquakes in any one particular geographical region. In addition, the diverse geographical locations of our production bases also enable us to distribute our produce efficiently to different parts of the PRC.

The following table shows the location and breakdown by area of our production bases as of December 31, 2010:

Location	**Area (mu)**	**Area (ha)**	**Type**[(2)]
Fujian	80,850	5,390	Crops
Jiangsu	117,170	7,812	Crops
Jilin	80,000	5,333	Crops
Shaanxi	58,500	3,900	Crops
Hebei	63,500	4,233	Crops
Hubei	63,000	4,200	Crops
Hunan	35,000	2,333	Crops
Beijing/Tianjin	26,000	1,733	Crops
Others[(1)]	20,500	1,367	Crops
Sub-total	**544,520**	**36,301**	**76%**
Jiangxi	98,750	6,583	Fruit
Fujian	53,753	3,584	Fruit
Sub-total	**152,503**	**10,167**	**21%**
Fujian	17,910	1,194	Tea
Sub-total	**17,910**	**1,194**	**3%**
TOTAL	**714,933**	**47,662**	**100%**

(1) Includes the provinces of Shandong, Guangdong and Zhejiang.
(2) Rice is periodically grown on some of our vegetable land as part of a crop rotation cycle.

Raw Materials and Supplies

Organic fertilizers, seeds and pesticides are the principal raw materials used in our agricultural produce business. The total costs of such raw materials account for a substantial part of our cost of sales.

As the green food production standards of the China Green Food Development Center and the organic food production standards of the China Organic Food Development Centre exert strict control on the use of synthetic or chemical raw materials, we must ensure that the principal raw materials we use in production are organic or natural. In an effort to ensure strict control in this respect, we purchase all of the organic fertilizers we use in production from Fujian Chaoda Agricultural Produce Trading Company Limited ("Fujian Chaoda Trading") at prices determined pursuant to arm's length negotiations. Fujian Chaoda Trading is a 95%-owned subsidiary of Fujian Chaoda Group Limited ("Fujian Chaoda Group"), which in turn is 95%-owned by Mr. Kwok Ho, our Chairman, as of March 31, 2011. We believe that the quality of the raw materials supplied by Fujian Chaoda Trading enhances the quality and production yield of our agricultural produce. We have entered into a long-term supply agreement with Fujian Chaoda Trading in respect of the supply of organic fertilizers. Apart from its sales to us, Fujian Chaoda Trading also sells the same types of organic fertilizers to other independent customers in the PRC.

We purchase raw materials other than fertilizers from independent suppliers. We do not have long-term supply agreements with these suppliers but purchase these raw materials based on purchase orders according to our development and production schedules. Generally all our purchases of raw materials, including purchase of organic fertilizers from Fujian Chaoda Trading, are made at prevailing market prices.

Our five largest suppliers in aggregate accounted for approximately 60.6%, 59.8%, 53.4% and 44.4% of our total purchases for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, respectively. The largest supplier, Fujian Chaoda Trading, accounted for approximately 42.1%, 43.2%, 38.8% and 28.2% of our total raw material purchases for each of the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, respectively.

Sales

The following table sets forth our sales of agricultural produce broken down by distribution channels for the periods indicated:

	Year ended June 30,						Six months ended December 31,				
	2008		2009		2010		2009		2010		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US$	%
	(in thousands except percentages)										
Sales of agricultural produce by distribution channel											
Domestic sales											
Wholesale markets	3,201,472	64.2	4,156,831	68.4	4,611,907	66.8	2,097,760	65.3	2,634,585	399,180	69.1
Institutional sales	289,189	5.8	322,742	5.3	497,551	7.2	316,969	9.9	193,712	29,350	5.1
Sub-total	3,490,661	70.0	4,479,573	73.7	5,109,458	74.0	2,414,729	75.2	2,828,297	367,311	74.2
Overseas sales	1,497,440	30.0	1,599,059	26.3	1,793,139	26.0	798,262	24.8	981,872	148,768	25.8
Total sales of agricultural produce	4,988,101	100.0%	6,078,632	100.0%	6,902,597	100.0%	3,212,991	100.0%	3,810,169	577,298	100.0%

Domestic sales. Sales in the PRC accounted for approximately 70.0%, 73.7%, 74.0% and 74.2% of our agricultural produce sales for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, respectively. Domestic sales of our agricultural produce can be categorized as follows:

- *Wholesale markets*. We deliver our agricultural produce daily to more than 60 agricultural produce wholesale markets at the provincial and municipal levels in the PRC where such produce is sold to distributors, who in turn sell to retail customers at local fresh food markets. Sales made at the wholesale markets are denominated in Renminbi and payments are generally made on a cash-on-delivery basis or on a next-day-payment basis. Domestic sales of crops to wholesale markets accounted for approximately 64.2%, 68.4%, 66.8% and 69.1% of our total sales of agricultural produce for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, respectively.

- *Institutional sales*. We also supply and sell our agricultural produce to institutional customers that consume a high volume of fresh agricultural produce on a daily basis, consisting mainly of hotels, large chain stores, hospitals, schools, government and non-government entities. We normally enter into a framework agreement with each of our institutional customers specifying, among other things, the duration of the agreement and general payment terms. The type and quantity of the produce to be supplied, as well as the price and delivery arrangements are determined on an order-by-order basis. All sales to institutional customers are denominated in Renminbi, and payments are mainly made on credit terms ranging from one to three months after delivery. Domestic institutional sales accounted for approximately 5.8%, 5.3% and 7.2% and 5.1% of our total sales of agriculture produce for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, respectively.

Overseas sales. Our overseas sales comprise sales of our agricultural produce to unaffiliated trading companies in the PRC which in turn export such produce to overseas markets such as Japan, South Korea, Southeast Asia, Europe and North America. Sales to export trading companies accounted for approximately 30.0%, 26.3%, 26.0% and 25.8% of our total sales of agricultural produce for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, respectively. While prices for overseas sales have generally been higher than for domestic sales, profit margin and domestic sales have experienced rapid growth. Our strategy is to sell the majority portion of our agricultural produce in the domestic market, and export approximately 30% of our agricultural produce. All sales to PRC export trading companies are denominated in Renminbi, and payments are mainly made on credit terms of between one month and three months after delivery.

Other Businesses

In addition to the agricultural produce business, we are also engaged in the livestock breeding and tree plantation businesses in the PRC.

Livestock breeding business

We are engaged in the breeding and sale of livestock. As of December 31, 2010, we operated goat breeding facilities in Fujian Province in the PRC. We also have dairy cattle breeding facilities in Duo Lun County of the Inner Mongolia Autonomous Region in the PRC for raising high quality breeds of dairy cattle. Turnover from the livestock business accounted for less than 1% of our total turnover for each of the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010.

Tree plantation operations

We started our tree plantation operations in 2005 to grow mainly eucalyptus trees and intend to harvest and sell them to timber wholesalers and furniture manufacturers. As the growth cycle of the trees is about five years, our tree plantation operations have not contributed to our revenue to date. We expect some of the trees we grow will start to reach maturity for harvesting later in 2011 or 2012.

Edible vaccine products

In January 2010, we acquired a 70% equity interest in Keen Spirit Global Limited ("Keen Spirit") for consideration of HK$450.0 million, satisfied in full by the allotment and issuance of our shares. Keen Spirit wholly owns VaxGene Corporation, a company engaged in the research and development of biological technologies and which owns patent application rights with respect to certain biological technologies. We intend to use these technologies and cooperate with universities or research institutes to conduct further research and experiments to develop vegetable and fruit products that contain edible vaccines that combat viruses and bacteria. This project is in a preliminary stage, however, and as of March 31, 2011, we have not signed any definitive agreements with any universities or research institutes.

DESCRIPTION OF MATERIAL INDEBTEDNESS

To fund our existing business operations and to finance our working capital requirements, we have borrowed money or incurred indebtedness from various banks. As of December 31, 2010, we had no bank borrowings. We set forth below a summary of the material terms and conditions of these loans and other indebtedness.

Working Capital Facility

We have an aggregate of RMB70 million (US$10.6 million) available under a working capital facility with a bank in the PRC, which had not been utilized as of December 31, 2010. Fuzhou Chaoda is the guarantor sharing joint and several liability with the debtor party with respect to this working capital facility. The working capital facility is uncommitted and is repayable on demand.

2010 Convertible Bonds

On September 1, 2010, we issued an aggregate principal amount of US$200.0 million 3.7% secured guaranteed convertible bonds due 2015, or the 2010 Convertible Bonds. The 2010 Convertible Bonds will mature on September 1, 2015. As of March 31, 2011, US$200.0 million of the 2010 Convertible Bonds are outstanding.

Conversion

The 2010 Convertible Bonds are, at the option of the holders, convertible at any time during the conversion period (being the period from the 41st day after the issue date of the 2010 Convertible Bonds up to close of business on the 10th day prior to the maturity date of the 2010 Convertible Bonds, or, if such 2010 Convertible Bond is called for redemption by us before September 1, 2015, up to the close of business on a date no later than seven days prior to the date fixed for redemption or if notice requiring redemption has been given by the holder, up to the close of business on the day prior to the giving of such notice) into our fully paid ordinary shares with a par value of HK$0.10 each at an initial conversion price of HK$8.10 per share with a fixed exchange rate of HK$7.7728 to US$1.00. The conversion price is subject to adjustment for, among other things, consolidation, subdivision or reclassification of shares, capitalization of profits or reserves, capital distributions, rights issues of shares or other securities or options over shares, issues of shares or other securities at less than the current market price, or a change of control of our Company.

Cash Settlement Option

At any time when we are required to deliver shares upon conversion of the 2010 Convertible Bonds, we have the option to pay to the relevant holder an amount of cash in U.S. dollars equal to the applicable Cash Settlement Amount (as defined below) in order to satisfy such conversion right in full or in part (and, if in part, in which case the other part shall be satisfied by the delivery of shares) (the "Cash Settlement Option"). "Cash Settlement Amount" means the product of (i) the number of shares otherwise deliverable upon exercise of the conversion right in respect of the 2010 Convertible Bonds, and in respect of which we have elected the Cash Settlement Option and (ii) the arithmetic average of the volume-weighted average price of shares on the Stock Exchange for each day during the 10 trading days immediately after the date on which we elect to exercise the Cash Settlement Option.

Redemption at the option of holders

On September 1, 2013, the holder of each 2010 Convertible Bond will have the right, at such holder's option, to require us to redeem, in whole or in part, such holder's 2010 Convertible Bond at its principal amount, together with any accrued but unpaid interest to the date of redemption. In the event that the shares cease to be listed or admitted to trading or suspended from trading for a period equal to or exceeding 60 consecutive days on the Stock Exchange or any alternative stock exchange if applicable, or there is a change of control of our Company, the holder of each 2010 Convertible Bond will have the right, at such holder's option, to require us to redeem, in whole or in part, such holder's 2010 Convertible Bond at its principal amount together with interest accrued.

Redemption at our option

On giving not less than 30 nor more than 60 days' irrevocable notice to the holders and the trustee of the 2010 Convertible Bonds, we may at any time after September 1, 2012, redeem in whole but not in part, the 2010 Convertible Bonds at their principal amount together with interest accrued to the date of redemption, provided that the closing price for each of 20 out of 30 consecutive trading days, the last of which occurs not more than five trading days prior to the date upon which notice of such redemption is published, was at least 130% of the prevailing conversion price. We may also at any time redeem in whole but not in part, the 2010 Convertible Bonds at their principal amount together with interest accrued to the date of redemption, provided that prior to the date of such notice, at least 90% in principal amount of the 2010 Convertible Bonds originally issued has already been converted, redeemed or purchased and cancelled. If there shall occur an event giving rise to a change in the conversion price during any such 30 trading day period, appropriate adjustments for the relevant days will be made.

Redemption on change of control

Upon the occurrence of certain events of change of control of our Company, the holder of each 2010 Convertible Bond will have the right to require us to redeem all or only some of such holder's 2010 Convertible Bonds at their principal amount together with interest accrued. A change of control of our Company that would grant a 2010 Convertible Bond holder the right to require us to redeem includes (i) any entity (other than Mr. Kwok Ho and Kailey Investments Ltd or any of their affiliates) acquiring control of our Company or (ii) our Company consolidating or merging with another entity or selling all or substantially all of our assets to another entity, unless the consolidation, merger, sale or transfer will not result in the other entity acquiring control of our Company or our Company's successor. "Control" under this provision means the acquisition or control of more than 50% of the voting rights of the issued share capital of our Company or the right to appoint and/or remove all or the majority of the members of our board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

Guarantee

Each of Chaoda Vegetable & Fruits Trading Limited, Insight Decision Limited, Timor Enterprise Limited, Worthy Year Investments Limited and Chaoda Vegetable & Fruits Limited, all of which are our subsidiaries (each a "CB Subsidiary Guarantor" and together, the "CB Subsidiary Guarantors"), has unconditionally and irrevocably guaranteed, on a joint and several basis, the due payment of all sums expressed to be payable by us, and the performance of all the obligations of us, under, among other things, the trust deed constituting the 2010 Convertible Bonds and the 2010 Convertible Bonds. The CB Subsidiary Guarantors will also guarantee our obligations under the Notes.

Security

The payment obligations and the performance of all of the obligations of us under, among other things, the 2010 Convertible Bonds, the trust deed constituting the 2010 Convertible Bonds and the CB Subsidiary Guarantors under their respective guarantees of the 2010 Convertible Bonds are currently secured by charges over the shares of each of the CB Subsidiary Guarantors. On the issue date of the Notes, such collateral will secure on a pari passu basis (i) our obligations under the 2010 Convertible Bonds, the trust deed constituting the 2010 Convertible Bonds and the CB Subsidiary Guarantors under their respective guarantees of the 2010 Convertible Bonds and (ii) the Notes and the Subsidiary Guarantees, pursuant to an intercreditor agreement to be entered into between the trustee of the 2010 Convertible Bonds and the trustee of the Notes.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

"Board"	the board of Directors
"Citi"	Citigroup Global Markets Inc., one of the joint global coordinators, joint lead managers and joint bookrunners in respect of the offer and sale of the Notes
"Company"	Chaoda Modern Agriculture (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
"Credit Suisse"	Credit Suisse Securities (Europe) Limited, one of the joint global coordinators, joint lead managers and joint bookrunners in respect of the offer and sale of the Notes
"Directors"	the directors of the Company
"Fuzhou Chaoda"	Fuzhou Chaoda Modern Agriculture Development Company Limited (福州超大現代農業發展有限公司), a limited liability company established in the PRC and a wholly owned subsidiary of the Company
"Group", "we", "our" and "us"	the Company and its consolidated subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Merrill Lynch International"	Merrill Lynch International, one of the joint lead managers and joint bookrunners in respect of the offer and sale of the Notes
"Notes"	the guaranteed senior notes to be issued by the Company
"PRC"	the People's Republic of China, excluding Hong Kong, Macao Special Administrative Region of the PRC and Taiwan for the purposes of this announcement
"Proposed Notes Issue"	the proposed issue of the Notes by the Company

"Purchase Agreement"	the agreement proposed to be entered into between, among others, the Company, Citi and Credit Suisse in relation to the Proposed Notes Issue
"Securities Act"	the United States Securities Act of 1933, as amended
"SGX-ST"	Singapore Exchange Securities Trading Limited
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollars

By Order of the Board
Chaoda Modern Agriculture (Holdings) Limited
Kwok Ho
Chairman

Hong Kong, April 27, 2011

As of the date hereof, the board of directors of the Company comprises:

Executive directors	: *Mr. Kwok Ho, Dr. Li Yan, Ms. Huang Xie Ying, Mr. Kuang Qiao, Mr. Chen Jun Hua and Mr. Chan Chi Po Andy*
Non-executive director	: *Mr. Ip Chi Ming*
Independent non-executive directors	: *Mr. Fung Chi Kin, Mr. Tam Ching Ho, Professor Lin Shun Quan and Ms. Luan Yue Wen*

Extract of Operating and Financial Data
of Chaoda Modern Agriculture (Holdings) Limited
(As of December 31, 2010)

Risks Relating to Our Business

If our land leases are subject to any dispute or if their legality or validity is challenged, our operations may be disrupted

We operate our agricultural production bases and livestock breeding facilities pursuant to land leases under which we obtain land-use rights from third parties with lease terms typically ranging from 20 to 70 years. We enter into these leases with local landowners or the holders of such land-use rights, which are generally townships or rural collective organizations that either own land or act on behalf of farming households having rights to the use of land. As of March 31, 2011, all of our agricultural production bases and livestock breeding facilities were subject to such land leases contracted with townships, rural collective organizations and other legal entities.

PRC law provides for the registration of land ownership and land-use rights and for the issuance of certificates evidencing such land ownership or land-use rights. However, the administrative system for registering land ownership and land-use rights is not well-developed in the rural areas where most of our agricultural production bases and livestock breeding facilities are located. As a result, we are generally not able to verify through the land registry system the ownership or land-use rights of the parties with whom we have contracted for the land-use rights. Prior to entering into a land lease, we seek to confirm with relevant administrative authorities that there is no dispute concerning the ownership or land-use rights relating to the land. In addition, we seek to obtain representations from our contract counterparties that such parties own the land, possess land-use rights or have the right to sub-lease the land-use rights on behalf of the holder of such rights. Notwithstanding such procedures, we cannot assure you that our contract counterparties have legal and beneficial title to the land or that they will not, in breach of the terms of the applicable land lease with us, enter into arrangements with other third parties in respect of land-use rights which they have previously granted to us. As a result, we also cannot assure you that we have been granted legal and valid land-use rights or leases.

Under PRC laws, if any person intends to lease any rural land which has been contracted to a farming household, a land lease must be signed with the farming household or its authorized representative. The lease must then be filed with and reported to the rural collective organizations and the local government's department of rural land contract management. As of March 31, 2011, most of the land we leased for our agricultural production bases and livestock breeding facilities from local governments or rural collective organizations was initially contracted to farming households. As we have signed most of our land leases with local governments or rural collective organizations rather than with farming households, we cannot assure you that the local governments or rural collective organizations have acquired the necessary authorization from the farming households or that we have completed the relevant procedures with respect to leasing these lands.

In addition, under PRC laws, if a rural collective organization plans to contract the land to entities or individuals that do not belong to that collective, the contract must first be approved by at least two-thirds of the members of the village assembly or representatives of the villagers. The contract must then be submitted to the township for approval before it becomes effective. As of March 31, 2011, some of our land used for agricultural production bases was leased from rural collective organizations directly. We cannot assure you that these collectives have undertaken all required actions prior to and after entering into contracts with us.

Pursuant to our land leases, we have also erected buildings and semi-permanent structures on our agricultural production bases and livestock breeding facilities for offices and employee accommodations. As a result of the less well-developed land registration system in rural areas, we may not possess complete title documents and all relevant construction permits with respect to such buildings and structures. If our ownership and use of such buildings and structures are subject to dispute, or if their legality or validity is challenged, our operations may be disrupted and our business and results of operations may be materially and adversely affected.

We cannot assure you that we have completed all necessary procedures for obtaining the land-use rights or land leases we require or that the legality, validity or enforceability of our land leases will not be subject to any dispute or challenge in the future. If our land leases are subject to dispute, our operations on such land could be temporarily or permanently suspended and we could lose such land-use rights, which could have a material adverse effect on our business, results of operations and financial position.

Our land leases may be terminated due to any material breach of the leases by us, a compulsory reversion of land by the PRC government or other reasons

All of the land currently occupied by our production bases and livestock breeding facilities is subject to land leases with independent third parties including township governments, rural collective organizations and other legal entities. The lease periods for such land typically range from 20 to 70 years. We expect to continue to obtain land to expand our production bases and livestock breeding facilities through similar land leases. Pursuant to the relevant land leases and applicable PRC laws, the land leases relating to our production bases or livestock breeding facilities may be terminated (a) by the lessors in the event of a material breach of any obligation or any PRC law or regulation by us or (b) as a result of a compulsory reversion of land by the PRC government. If any such event occurs and we encounter any major difficulty in finding suitable alternative land or premises, our production and operations will be disrupted. Furthermore, even if such alternative land or premises is found, we may experience disruption to our production and operations in order to develop the necessary infrastructure on such land. If any such disruption occurs, our business, results of operations and financial position may be materially and adversely affected.

We may be unable to secure suitable farmland for sustainable growth

Our growth and future success will be dependent on, among others, our ability to implement our strategies for expansion of our production bases. In order to maintain our future growth, we will need to expand our agricultural land area to establish new production bases or livestock breeding facilities. Our ability to identify and acquire suitable farmland depends on factors such as the availability of farmland that meets our requirements in terms of soil quality and favorable climatic and geographical conditions. It would also depend on fluctuations in rental premiums, changes in PRC government policies and our ability to negotiate and cooperate with the local government and existing land-use right owners and rural collective organizations for the lease of such farmland. Although we typically look for farmland in rural areas that are far away from cities, rapid urbanization and increasing pollution may adversely affect our ability to acquire targeted leases or expand our existing production bases. Generally under our land leases, we have the right to return farmland acquired to the lessor if the land is or becomes unsuitable for our farming purposes, see “Business — Production Bases — Leasing of land,” but this would nevertheless affect our operations and hinder our expansion plans. If we encounter any major difficulty in finding suitable land or premises at reasonable prices to establish new production bases or livestock breeding facilities, it could disrupt our development plans and materially and adversely affect our business, results of operations and financial position.

A substantial portion of our transactions is effected in cash, which presents inherent internal control risks

The majority of our sales of agricultural produce for the years ended June 30, 2008, 2009, 2010 and for the six months ended December 31, 2009 and 2010 were made at wholesale markets in the PRC. In accordance with the customary practice in the agricultural industry in rural China, and due to limited banking infrastructure in those regions, these transactions are normally settled in cash. The cash-intensive nature of our business presents inherent risks relating to internal control, including risks of loss, theft or misappropriation of cash by our employees or other persons.

PRC banking regulations limit the number of corporate accounts and cash-withdrawal accounts that may be opened by a particular company. In order to meet the substantial demand for cash from our operations, and the limitations imposed by PRC banking regulations, we maintain a significant amount of cash-in-hand at each of our production bases, at our cashier offices located at our branch offices and at our headquarters in Fujian, and some of the cash-in-hand is deposited in bank accounts maintained in an individual employee's name. We cannot assure you that we will not experience significant losses of cash as a result of (i) the cash-intensive nature of our business, (ii) any deficiency in our security measures with respect to cash management, transfer and depository arrangements, including instances of fraud or embezzlement committed by our employees, or (iii) the constraints of the PRC banking system, any of which could have a material adverse effect on our business, results of operations and financial position.

Our results of operations are subject to price volatility and seasonality

We are exposed to risks associated with the fluctuation in prices for agricultural produce. Demand for our produce also depends on demographic factors, consumer preferences and trends, as well as factors relating to discretionary consumer spending, general economic conditions, consumer confidence levels and seasonal factors such as weather and holidays. There is currently no commodity futures hedging market for managing the above risks in the PRC, nor do we currently hedge against those risks through the use of derivatives or forward delivery contracts. In addition, the ability of our operating subsidiaries to take advantage of favorable market prices may be subject to risks of spoilage, weather-related losses and transportation delays. Prices of agricultural produce also tend to fluctuate on a seasonal basis in various geographic areas of the PRC.

We may not successfully manage our growth

As the scale of our operations grows, we will have to continually improve our management, operational and financial systems and strengthen our internal procedures and controls. The expansion of our business operations may also require us to establish and develop new relationships with our customers, suppliers and research and development ("R&D") institutions. Our expansion plans may be affected by a number of factors which may not be within our control. These factors include fluctuations in domestic and international demand for our agricultural produce, changes in consumer taste and preference, increasing competition from private farmers, rural collective organizations and other industry participants, and our ability to lease suitable farmland for future growth. Any unfavorable change in any of these factors may disrupt our expansion plans and have a material adverse effect on our business, results of operations and financial position. As we continue to expand, we will also need to improve our corporate governance standards and increase transparency and communications with our security holders and the market. We cannot assure you that our existing or future management, operational and financial systems, procedures and controls (including those relating to corporate governance) will be adequate to support our expansion and future operations or that we will be able to establish or develop business relationships beneficial to our future operations. Further, we may not be able to obtain adequate financing to complete construction and commence commercial operations of new production bases and processing facilities. Failure to scale our business appropriately and to manage our growth effectively could have a material adverse effect on our business, results of operations and financial position.

In addition, as a supplement to our core business, we will continue to expand our investment in our livestock breeding business (goats in Fujian and dairy cattle in Inner Mongolia) as well as in tree plantation. We also plan to develop new vegetable and fruit products that contain edible vaccines that combat viruses and bacteria through the use of biological technologies that we acquired in January 2010. We cannot assure you that such operations or investments will become profitable or will not otherwise incur significant losses in the future.

We have not obtained relevant approvals from the Ministry of Commerce to engage in grain distribution for some of our subsidiaries

The grain distribution business is a restricted industry for foreign investment under the Guideline Catalogue of Foreign Investment Industries (2007 Revision). Foreign invested enterprises and subsidiaries of foreign invested enterprises in the PRC are required under PRC law to obtain approval from the provincial counterparts of the Ministry of Commerce ("MOFCOM") to engage in the business of grain distribution. We registered grain distribution as part of the business scope of our PRC subsidiaries Fuzhou Chaoda Trading Co., Ltd. and Fujian Chaoda Livestock Co. Ltd. with the relevant local Administration of Industry and Commerce and obtained the relevant business licenses in 2005, which allowed them to engage in the business of grain distribution. However, since these entities had not previously received the requisite approvals from the provincial counterparts of MOFCOM, they may in the future be required by the relevant government authorities to apply for such approvals. If such approvals are not granted, the business scope of grain distribution may be revoked for Fuzhou Chaoda Trading Co., Ltd. and Fujian Chaoda Livestock Co. Ltd., which in turn may disrupt or suspend their grain distribution activities, and may have a material adverse effect on our business, results of operations and financial position.

We may not have adequate financing to fund our land leases, infrastructure construction and operations

Our business model of industrialized farming requires a significant amount of cash resources. We finance our operations and the leasing of farmland primarily through our internal funds, equity and debt securities offerings and short-term bank loans. When we lease a piece of vegetable land, we typically pay the existing land-use rights owners or land owners an upfront land premium in a lump sum together with annual rental payments. Land costs for fruit and tea gardens and livestock grasslands typically include an upfront lump sum payment representing rent payment for the entire duration of the lease. See "Business — Production Bases — Leasing of land." After leasing the land, we will expend resources in constructing the necessary infrastructure on the farmland to convert it into one of our production bases suitable for farming or livestock breeding. The leasing of farmland, infrastructure construction and the hiring of local and seasonal farmers to work on our production bases together constitutes a significant amount of capital expenditures. Unlike in other industries, we typically are not able to obtain substantial long-term bank loans for operation and expansion purposes as our major assets, the production bases, are located on leased farmland, which many banks consider unsuitable to be used as security. We cannot assure you that we will be able to generate sufficient cashflows for our operation and working capital needs. We have in the past relied on equity and debt securities as well as convertible bonds offerings to fund our expansion plans. Such financing may not be available to us at reasonable costs, or at all. If we are unable to obtain adequate financing in amounts or on terms suitable to our needs, our business, results of operations and financial position may be materially and adversely affected.

We incur significant capital spending and may need to raise additional financing to support future development

We believe that our continued expansion is essential for us to remain competitive and we intend to continue to establish new production bases and expand our existing production bases and livestock breeding facilities. Such expansion may place a significant strain on our financial resources and we may need to sell additional equity or debt securities or borrow under credit facilities to finance such expansion. We have in the past raised funds by issuing debt and equity securities and convertible securities in the market and may in the future issue further securities to raise financing. The sale or issuance of additional equity or convertible securities could result in additional restrictions on our business and expansion. Moreover, incurring additional indebtedness could result in increased debt service obligations, which could in turn trigger operating and financing covenants that would further restrict our operations. We cannot assure you that we will be able to obtain further financing on favorable terms, or at all, in order to fund our expansion plans. We also cannot assure you that we will not experience net negative cash flow in the future. Failure to obtain such financing or any possible breach of relevant covenants could have a material adverse effect on our business, results of operations and financial position.

Our ability to raise additional financing is also affected by a number of government policies. The People's Bank of China ("PBOC") increased benchmark lending rates four times and the reserve requirement ratio for commercial banks several times since the beginning of 2010. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. The increases in the bank reserve requirement ratio may negatively affect the amount of funds available to lend to businesses, including us, by commercial banks in China. Currently, all large-sized deposit-taking financial institutions in China must hold 20.5% of their Renminbi deposit on hand and small-sized financial institutions must hold 17% of their Renminbi deposits on hand. We cannot assure you that the PBOC will not raise lending rates or reserve requirement ratios in the future, or that our business, financial condition and results of operations will not be materially and adversely affected as a result of these adjustments.

We depend on a sufficient and skilled workforce to run our production bases

As we expand our operations and invest in new production bases, we will have to continually recruit qualified employees to work at our production bases. If the regions surrounding our production bases do not have a sufficient workforce available, we may need to expend additional resources to attract and recruit employees from other regions, which may significantly increase our recruiting expenses. In addition, our agricultural operations depend on the experience and cultivation skills of our employees, the training of whom may require considerable resources. We cannot assure you that we will be able to recruit or retain employees with the requisite skills, or that we will have the necessary resources to adequately train our employees, or that we will be able do so at reasonable costs.

We depend on the experience and continued service of our key management personnel

Our operations depend on the service and experience of our key management personnel including Mr. Kwok Ho (the Chairman and chief executive of our company) and our executive officers in particular. Our future business, results of operations and financial position will depend significantly upon the efforts of such persons. The loss of the services of any such key management personnel for any reason could have a material adverse effect on our business, results of operations and financial position. We do not maintain "key person" insurance on any such persons. In addition, we have production bases located in different parts of China covering different latitudes and elevations, from the eastern and the coastal regions to southern China and central China. Given our large-scale operations and wide geographical coverage, we need experienced and qualified managerial staff to effectively manage our operations and expansion. If we are unable to recruit and retain a sufficient number of experienced and qualified managerial staff, our business, results of operations and financial position could be materially and adversely affected.

We may be unable to obtain adequate and timely transportation services to deliver our agricultural produce

Generally, our customers arrange their own transport to pick up their ordered agricultural produce from our production bases. They may also require us to deliver the agricultural produce to them, in which case, we will arrange our own transport or engage third-party transportation companies to make the deliveries. We also have refrigerated trucks that handle refrigerated deliveries. As our agricultural produce including vegetables and fruit are perishable goods, they could be damaged or deteriorate in quality as a result of delivery disruptions due to delivery delays, improper handling, or malfunctioning refrigerated facilities. Delivery disruptions for various reasons, including the inability to obtain sufficient and satisfactory transportation services, adverse weather conditions, political turmoil, social unrest and labor strikes could result in delayed or lost deliveries. We cannot assure you that our transport vehicles and personnel or the third-party transportation companies that we engage will not cause or experience such disruptions, which in turn may cause delays and damage to our deliveries. Any delays or damages that may occur in delivery may result in loss of revenue, payments of compensation to customers and damage to our reputation, and may materially and adversely affect our business, results of operations and financial position. In addition, any significant increase in cost of transportation including increased fuel cost will increase our operating expenses.

Any disruption in the supply of utilities or an outbreak of fire or other calamities at our production bases may disrupt our business

The operation of our production bases and livestock breeding facilities depend on a continuous supply of utilities such as electricity and water. Most of our production bases have a packaging facility on-site or nearby. Our packaging facilities are equipped for pre-cooling, sorting, packaging and cold storage of our fresh produce, processes of which require uninterrupted supply of electricity and water. Based on our past experience, the PRC authorities may, as a result of a shortage of power, ration the supply of utilities, such as electricity, and require our production facilities to shut down periodically. Any disruption to the supply of electricity or water or any outbreak of fire or similar calamities at our production bases may result in the breakdown of our facilities, such as our cold storage facilities, which will in turn lead to deterioration or loss of our agricultural produce. This could adversely affect our ability to fulfill our sales orders and consequently may have a material adverse effect on our business, results of operations and financial position.

We face growing competition from local and foreign producers

Our competitors in the PRC include private farmers, collective associations and other companies engaged in the cultivation of agricultural produce. We also compete with larger operators that employ conventional or advanced farming and cultivation techniques. In addition, we face increasing competition from foreign producers such as those from South America and Southeast Asia. Some of our competitors may have substantially greater financial, technical, marketing, distribution and other resources than us. Because of the large number of competitors that we face, any changes in the number of competitors, level of marketing or investment undertaken by them, their pricing strategies, and increases in the volume of and the introduction of competing products into markets where we operate, could cause a reduction in demand for our products and in our market share. If we are unable to compete effectively with local and foreign producers, our business, result of operations and financial position will be materially and adversely affected. See "Business — Competition."

We may be affected by the import policies of the countries to which we export our agricultural produce and by the export policies of China

A portion of our agricultural produce is exported to overseas markets including Asia, Europe and North America through export trading companies, which are our direct customers. For the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, our sales to overseas markets through export trading companies accounted for approximately 30.0%, 26.3%, 26.0% and 25.8% of our aggregate agricultural produce sales. We are accordingly subject to applicable laws and regulations of the countries that import our products. Should our export markets introduce new laws and regulations, measures and standards that make it more difficult or costly for our produce to be exported to them, or take steps to prevent, limit or prohibit the importation of our produce, this may negatively affect the export trading companies' demand for our produce and our business, results of operations and financial position may be materially and adversely affected. If our export destinations impose custom duties and import tariffs and the export trading companies are unable to pass on such additional costs to the end buyers, their demand, and the prices they are willing to pay, for our produce may decline, which in turn may have a material adverse effect on our business, results of operations and financial position. We are currently not subject to any PRC export duties in the export of our agricultural produce from the PRC, but we cannot assure you that the PRC government will not levy such taxes in the future. In the event that the regulatory authorities in the PRC adopt measures making it more difficult or costly for us to export our products, our business, results of operations and financial position may be materially and adversely affected.

Our R&D efforts and related collaboration efforts may not result in commercially viable or competitive products

Our success depends in part on our ability to improve our current products and to develop new products. We place strong emphasis on R&D efforts to improve our cultivation methods, product quality, production yield and cost efficiency. R&D in agriculture cultivation and livestock breeding is generally expensive and prolonged. For example, a new species of crop or a new breed of livestock may take several generations to stabilize and become commercially viable. Due to the uncertainties and complexities associated with agricultural research, new and improved species of crops or breeds of livestock may not be commercially viable, and/or may not pass government testing in the relevant provinces of the PRC. If the resources we devote to R&D do not result in products that survive the development stage, do not result in products that we can sell to our customers, do not achieve commercial scale, do not pass government testing or are not well-received in the market, our business, results of operations and financial position may be materially and adversely affected. We may also from time to time enter into R&D collaboration agreements with scientific institutes, universities or other entities. These efforts may not be successful or may result in disputes related to the collaboration or the results of the collaboration. In addition, many of the technologies related to the R&D subjects that we are engaged in have become relatively mature in the past few years and it has become more difficult to achieve any significant finding or breakthrough without incurring significant costs, or at all.

We benefit from various tax exemptions and reductions, the loss of which could have a material adverse effect on our results of operations and financial position

In December 2002, Fuzhou Chaoda Agriculture Development Company Limited ("Fuzhou Chaoda") was designated a "State-Level Dragon Head Leading Agricultural Enterprise" by the PRC government. This designation exempts Fuzhou Chaoda and its eligible subsidiaries engaged in the stipulated qualifying agricultural business including growing and selling crops, breeding and selling livestock and the preliminary processing of agricultural and forestry products from PRC enterprise income tax on income derived from such agricultural business, and such status is subject to review every two years. Fuzhou Chaoda successfully passed subsequent reviews and has thus maintained its status as a "State-Level Dragon Head Leading Agricultural Enterprise" since 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Taxation." Further, under the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得税法) and the Regulations for Implementation of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得税法實施條例) (together, the "New Tax Law"), respectively enacted by the National People's Congress of the PRC (the "NPC" or the "National People's Congress") in March 2007 and by the State Council of the PRC in December 2007, both of which took effect on January 1, 2008, enterprises that engage in qualifying agricultural businesses, which include the growing and selling of crops, breeding and selling of livestock and the preliminary processing of agricultural and forestry produce, are eligible for certain tax benefits, including a full exemption or 50% reduction in enterprise income tax on income derived from such business.

Fuzhou Chaoda, as a "State-Level Dragon Head Leading Agricultural Enterprise," and its eligible subsidiaries, are entitled to a full exemption from PRC enterprise income tax for income derived from qualifying agricultural business. Our other PRC subsidiaries that are engaged in qualifying agricultural businesses under the New Tax Law are also entitled to a full exemption from, or 50% reduction in, PRC enterprise income tax for income derived from a qualifying business. If any of these tax exemptions or reductions ceases to be available to us or is amended in any manner that reduces the benefits we enjoy (whether as a result of changes in government policies or otherwise) or if any changes are made to the applicable tax laws and regulations (including, without limitation, any change or increase in value-added tax) adversely affecting our agricultural produce or livestock business, our business, results of operations and financial position may be materially and adversely affected.

We may be adversely affected by consumer complaints and negative publicity about food safety in the PRC

We may be the subject of complaints or litigation, whether valid or false, from consumers regarding the quality of our agricultural produce. We may also be affected by factors such as negative publicity resulting from the publication of industry findings, research reports or health surveys concerning food safety of agricultural products produced in the PRC in general. Such complaints, litigation and negative publicity, even if without merit, may lead to a loss of consumer confidence, reduction in the demand for our produce, and consequently our business, results of operations, financial position and prospects may be materially and adversely affected.

We face risks associated with contamination or deterioration of our agricultural produce and we may be subject to product liability claims

The contamination or deterioration of our agricultural produce, whether actual or alleged, deliberate or accidental, could harm our reputation and business. The risk of contamination or deterioration exists during each stage of our production cycle, from cultivation to packaging and delivery. Any such contamination or deterioration could result in a recall of our agricultural produce. We may also have criminal and/or civil liability and our ability to sell our produce may be restricted. This would consequently have a material adverse effect on our business, results of operations and financial position. In the event that our agricultural produce are found to be unfit for human consumption or detrimental to human health as a consequence of our negligence, we may be subject to product liability claims and be required to compensate consumers. Negative effects to human health may result from tampering by unauthorized third parties or product contamination or degeneration, including the presence of foreign contaminants, chemicals, substances or other agents or residues introduced during the various stages of our production process. We cannot assure you that the consumption of our agricultural produce will not cause health-related illnesses as a result of product contamination or degeneration or that we will not be subject to claims or lawsuits relating to such matters. Any resulting litigation will significantly consume our resources including time and money.

Further, we do not maintain any insurance cover with respect to product liability. Accordingly, in the event of a successful product liability claim against us, we will be liable for damages and may be ordered to suspend or cease production by the relevant government authority. This may result in negative publicity and a loss of customer confidence and/or goodwill which could lead to a reduction in sales and/or cancellation of major contracts. Any claims by consumers or the government that our agricultural produce caused injury, illness, or death could have a material adverse effect on our reputation with existing and potential customers and on our business, results of operations and financial position.

We may be involved in disputes and legal and other proceedings arising out of our operations from time to time and may face significant liabilities as a result

We may be involved in disputes directly or indirectly in relation to the production and sale of our agricultural produce and livestock with various parties including suppliers, customers, contractors, employees, parties from whom we lease our land-use rights, research partners, land owners or residents of properties adjacent to our production bases, related parties and other parties. These disputes may lead to legal or other proceedings and may result in damage to our reputation, substantial costs and diversion of resources and management's attention. In addition, we may have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that may result in liabilities and cause interruption to the production and delivery of our agricultural produce and livestock, including interruption of our planting and harvesting schedules. Any of the above could have a material adverse effect on our business, results of operations and financial position.

Our Chairman has significant control over us

As of the March 31, 2011, approximately 19.22% of our issued share capital was owned by Kailey Investment Ltd. ("Kailey"), a company incorporated in the British Virgin Islands, which is wholly owned by Mr. Kwok who holds another 0.03% of our issued share capital in his personal capacity. Mr. Kwok was therefore our single largest shareholder through his direct and indirect ownership of our shares. The interests of Mr. Kwok and Kailey could conflict with our interest. Amongst others, Mr. Kwok and Kailey would have significant influence over matters such as the election of our directors and senior management and our major policy decisions. Mr. Kwok and Kailey could also exert influence on our overall business development plans and strategic and investment decisions, the timing and amount of any dividend payments, approval of our annual budgets, increases or decreases in our share capital, our issuance of new securities, mergers, acquisitions and disposals of our assets or businesses, and making changes to our articles of association. As a result, Mr. Kwok and Kailey may, through their direct or indirect control over the Company, take actions that favor their own interests which may not be in our best interest.

We depend on suppliers of raw materials

Our agricultural operations depend on obtaining adequate supplies of raw materials, such as organic fertilizers, seeds, pesticide and packaging materials, and are subject to fluctuation in the market prices of such raw materials. The prices that we pay for raw materials may increase due to heightened industry demand, inflation, higher fuel and transportation costs and other factors. We rely on Fujian Chaoda Agricultural Produce Trading Company Limited ("Fujian Chaoda Trading") for the supply of all of the organic fertilizers that we use. For each of the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, approximately 42.1%, 43.2%, 38.8% and 28.2% of our total raw material purchases were attributable to purchases from Fujian Chaoda Trading. Fujian Chaoda Trading is a 95%-owned subsidiary of Fujian Chaoda Group Limited ("Fujian Chaoda Group") which is in turn 95%-owned by Mr. Kwok. We have entered into an organic fertilizer supply agreement with Fujian Chaoda Trading on an arms-length basis for a fixed term of three years expiring in July 2012. Upon such expiry, any renewal of the organic fertilizers supply agreement will be subject to approval by our shareholders and we cannot assure you that a new agreement will be agreed or approved by our shareholders, or that the terms will be as favorable as the existing agreement. In addition, we do not have long-term supply agreements for other raw materials. If the supply of organic fertilizers from Fujian Chaoda Trading or the supply of other raw materials is, for any reason, materially disrupted or discontinued, including where Fujian Chaoda Trading or another supplier fails to fulfill its obligations under the relevant supply agreement or such agreement is otherwise terminated in accordance with its terms and we are unable to purchase organic fertilizers or other raw materials of comparable quality on comparable terms from alternative sources in a timely manner, there could be a material disruption to our agricultural production operations, which could have a material adverse effect on our business, results of operations and financial position.

We rely on third party contractors for the construction of infrastructure for our production bases

Construction, improvement and maintenance of our agricultural infrastructure, including irrigation systems, drainage ditches and canals, greenhouses and crop shelters, require the services of third party contractors. We currently maintain working relationships with a number of contractors and rely on them to provide construction services necessary for our agricultural operations. If we are unable to continue our working relationships with such contractors for any reason, and we are unable to obtain the services of other contractors with comparable skill and capabilities at reasonable cost, our expansion and maintenance plans could be disrupted, which could have a material adverse effect on our business, results of operations and financial position. In addition, we cannot assure you that the quality of work of the contractors we engage will be satisfactory, which could result in increased costs, delays in our development or expansion schedules and disruption of our operations.

PRC laws and regulations applicable to our business are complex and evolving, and we may not be in full compliance with such laws and regulations

We are subject to a broad range of laws and regulations in the PRC with respect to our operations and activities. The interpretation and enforcement of these laws can be uncertain, and we may not be deemed to be in full compliance with such laws and regulations, including those relating to environmental protection, safety or corporate cash management. We cannot assure you that we will not become subject to any enforcement or other action in the future in respect of any non-compliance, and any sanctions or actions taken against us by any PRC regulatory body in the future could have a material adverse effect on our business, results of operations and financial position.

In particular, we may not be in strict compliance with PRC laws and regulations in the following areas:

Environmental liabilities. We are subject to a range of PRC environmental laws and regulations with respect to our operations and activities. In particular, each of our construction projects must be approved by the relevant environmental authorities prior to commencement in order for the authorities to determine whether the project can proceed and whether certain environmental protection measures need to be adopted. We cannot assure you that our operations or activities are in full compliance with such laws and regulations, including the receipt of the necessary approvals from the relevant environmental authorities for the construction projects undertaken at our production bases and processing facilities.

Fees, taxes and other liabilities. From time to time, we are required to pay fees and taxes and make other payments to governmental authorities at various levels. We may be subject to government fees, taxes and other payments that we are not currently aware of or under which our payment obligations are unclear. In addition, we may be entitled to certain exemptions or reductions in respect of such fees, taxes and other payments, but we may not have completed in a timely manner all administrative requirements for any such exemption or reduction to apply.

Domestic and international food safety laws and regulations may cause us to incur additional costs to comply with more stringent requirements

Our operations are subject to the food safety laws and regulations of the PRC and other countries where we export our agricultural produce. These include the Food Safety Law of the PRC and its Implementation Rules (中華人民共和國食品安全法及實施條例), the Agricultural Product Quality and Safety Law of the PRC (中華人民共和國農產品質量安全法), the Import and Export Commodity Inspection

Law of the PRC (中華人民共和國進出口商品 檢驗法) and the General Principles for the Examination of Food Production Permit (2010) (食品生產許可審查通則 (2010版)). These laws set out hygiene standards with respect to food as well as hygiene requirements for food production, production facilities and equipment used for the transportation and sale of food. In particular, according to the Food Safety Law of the PRC which became effective on June 1, 2009, we are required to follow more stringent quality control and food safety standards, including those in relation to the use of pesticides and fertilizers in the production of agricultural produce. In addition, we will also be required to maintain proper production records of our produce. Any failure to comply with these laws and regulations may result in penalties such as fines or closure of our production bases, which may have a material adverse effect on our reputation, business, results of operations and financial position.

The enforcement of the new PRC Labor Contract Law and increase in labor costs in the PRC may adversely affect our business and our profitability

The new Labor Contract Law of the PRC came into effect on January 1, 2008 and its Implementation Rules were promulgated and became effective on September 18, 2008. The new Labor Contract Law and its Implementation Rules impose more stringent requirements on employers with regard to entering into written employment contracts, hiring temporary employees and dismissing employees. In addition, under the Regulations on Paid Annual Leave for Employees, which came into effect on January 1, 2008, and its Implementation Measures, which were promulgated and became effective on September 18, 2008, employees who have served more than one year for an employer are entitled to paid annual leave ranging from five to 15 days, depending on their length of service. Employees who waive such annual leave at the request of employers shall be compensated at a rate of three times of their normal salaries for each waived annual leave day. Such new laws and regulations may increase our labor costs. In addition, certain companies operating in the PRC have experienced labor unrest in 2010. We cannot assure you that these labor strikes will not affect general labor market conditions or result in changes to labor laws in the PRC, which in turn could adversely affect our business. Increases in our labor costs and future disputes with our employees could adversely affect our business, results of operations and financial position.

Any disputes over intellectual property rights and the inability to continue to use our trademarks may materially adversely affect our operations and business reputation

China's intellectual property laws are still evolving and the levels of protection and means of enforcement of intellectual property rights in China differ from those in other jurisdictions. Enforcement of our intellectual property rights could be costly, and we may not be able to immediately detect unauthorized use of our intellectual property and take the necessary steps to enforce our rights. If a third party uses our brand name or trademarks and conducts business in a negligent or reckless manner, our brand names and our reputation could be materially and adversely affected. In the event that the protection afforded by China's intellectual property laws does not adequately safeguard our interests and other intellectual property rights, we could suffer significant losses in revenues and profits concerning disputed intellectual property. Furthermore, we cannot assure you that any of our existing intellectual property rights will not be challenged by third parties. Adverse rulings in any litigation or proceeding could result in the loss of our proprietary rights and subject us to significant liabilities or business disruptions.

On December 1, 2000 and April 2, 2007, respectively, the Company entered into a trademark license agreement and a supplemental trademark license agreement with Mr. Kwok pursuant to which Mr. Kwok granted an exclusive license to the Company to use "Chaoda" trademarks for free for a term of 30 years commencing on December 1, 2000. See "Business — Intellectual Property." Such trademark license agreements may be terminated upon the occurrence of a number of events, including expiration of the license term, material breach of agreement, mutual written agreement of both parties, insolvency of the Company, the Company entering into any arrangement with its creditors, liquidation of the Company, any substantial change in ownership of the Company's business, nationalization of the Company's assets, or if Mr. Kwok ceases to be a substantial shareholder of the Company within the meaning of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). We rely on the "Chaoda" trademarks to conduct our business and market our agricultural produce. If the trademark license agreements were to be terminated for any reason, it could have a material adverse effect on our business, results of operations, financial position and reputation.

If we or those of our employees who are PRC citizens fail to comply with the Implementation Rules of the Administrative Measures for Individual Foreign Exchange or the Individual Foreign Exchange Rules in relation to our employee share option schemes, we or such employees may be subject to fines and legal sanctions

Under the Implementation Rules of the Administrative Measures on Individual Foreign Exchange issued on January 5, 2007, as well as the Operating Rules on the Foreign Exchange Administration of the Involvement of Domestic Individuals in the Employee Stock Ownership and Plans and Share Option Schemes of Overseas Listed Companies issued in 2007 by the PRC State Administration of Foreign Exchange (中華人民共和國國家外匯管理局) ("SAFE"), PRC citizens who have been granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or any other qualified PRC agent, to register with the SAFE and complete certain other procedures related to the share option or other share incentive plan. Foreign exchange income received from the sale of shares or dividends distributed by the overseas listed company may be remitted into a foreign currency account of such PRC citizen or be exchanged into Renminbi. Our PRC citizen employees who have been granted our share options, or PRC option holders, are subject to the Individual Foreign Exchange Rules. If we or our PRC citizen employees fail to comply with these regulations, we or our PRC option holders may be subject to fines and legal sanctions which may have a material adverse effect on our business, results of operations and financial position.

Risks Relating to the Agricultural Industry in China

Our operations are susceptible to weather conditions, natural disasters and other uninsured risks

Our business is susceptible to the risks of natural disasters and adverse weather conditions such as droughts, floods, earthquakes, hailstorms, windstorms, snowstorms, tsunamis and pests and crop and livestock diseases. In recent years, severe flooding, snowstorms, droughts and earthquakes in various parts of the PRC have caused extensive damage to crops and livestock. The occurrence of a natural disaster at or near any of our production bases or livestock breeding facilities may result in a material decline in crop output, a material loss in livestock numbers and material damage to farming, breeding or other ancillary facilities or equipment, which in turn could have a material adverse effect on our business, results of operations and financial position.

Crop and animal diseases have in recent years resulted in PRC government-mandated culling of animal populations. Such diseases could damage or destroy our crops and livestock, or the threat of such diseases could cause the PRC government to mandate that we destroy our crops and livestock. The occurrence of a crop or animal disease at or near any of our production bases or livestock breeding facilities, or the threat of a widespread epidemic in China may result in a material decline in crop output, a material loss in livestock numbers and material damage to farming, breeding or other ancillary facilities or equipment, which in turn could have a material adverse effect on our business, results of operations and financial position.

We currently do not maintain any insurance coverage with respect to our properties. We are not insured against business interruption, damage to crops or livestock or other losses resulting from accidents or fires or natural disasters such as droughts, floods, earthquakes, hailstorms, windstorms, snowstorms, tsunamis, pests or crop diseases and damage to our production base infrastructure. Furthermore, we are not insured with respect to losses arising from a breach of environmental and food safety laws, and exposure to product quality and liability claims. We believe that such risks are either uninsurable or cannot be insured in the PRC at a cost we believe to be reasonable, or that insurance against such risks is unnecessary. In the event an uninsured liability or a liability in excess of an insured limit arises, we may suffer losses that could have a material adverse effect on our business, results of operations and financial position.

Changes in government policies may have an adverse effect on our business

The agricultural industry in the PRC is heavily regulated by the government. The PRC government may, for instance, impose control over aspects such as raw material distribution and pricing, and product pricing and sales. It may also suspend, revoke or increase subsidies or preferential treatments applicable to agricultural enterprises such as tax benefits or favorable financing arrangements.

Our raw material sources, production levels, product pricing and sales are not directly determined by the PRC government. However, we cannot assure you that this will remain the case at all times. If our agricultural produce or livestock become subject to any form of PRC government control or if the government adopts any new policy detrimental to our business operations, then depending on the nature and extent of such control and our ability to make corresponding adjustments, there could be a material adverse effect on our business, results of operations and financial position.

We incur substantial costs to ensure environmental, health and safety compliance

We, like other agricultural enterprises in the PRC, are subject to national, provincial and local laws and regulations relating to the protection of human health, food safety and the environment. We have expended, and expect to expend in the future, substantial amounts for compliance with these environmental and food safety laws and regulations. Our failure to comply with such laws, regulations and permit requirements could result in civil or criminal fines or penalties and enforcement actions, including regulatory or judicial orders enjoining or curtailing our operations or requiring corrective measures, installation of pollution control equipment or other remedial actions, all of which may require substantial expenditure by us. We cannot assure you that material environmental and food safety liabilities will not be identified or that the enactment of new environmental and food safety laws or regulations or changes in existing laws or regulations will not require us to incur additional and significant expenditures. We also cannot assure you that internally-generated funds or other sources of liquidity and capital will be sufficient to fund unforeseen environmental or food safety liabilities or expenditures.

Risks Relating to Doing Business in China

PRC economic, political and social conditions, as well as governmental policies, could affect our business and prospects

Our production bases are located in China. The PRC economy differs from the economies of most developed countries in many aspects, including:

- the amount and degree of the PRC government involvement;
- growth rate and degree of development;
- uniformity in the implementation and enforcement of laws;
- content of and control over capital investment;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy. In addition, the PRC government continues to play a significant role in regulating industries and the economy through policy measures. We cannot predict whether changes in PRC economic, political or social conditions and in PRC laws, regulations and policies will have any adverse effect on our current or future business, results of operations and financial position.

In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and business development.

Our business, results of operations and financial position may be adversely affected by:

- changes in PRC political, economic and social conditions;
- changes in policies of the PRC government, including changes in policies affecting the agricultural industry, such as price controls or other measures to restrain the prices of agricultural produce;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures that may be introduced to control inflation or deflation;
- changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittance abroad; and
- reduction in tariff protection and other import restrictions.

Further, the growth of demand in China for agricultural produce depends heavily on economic growth. Between 1978 and 2008, China's GDP increased from approximately RMB364.5 billion to approximately RMB22,698 billion. We cannot assure you that such growth will be sustained in the future. Since early 2004 and from time to time, the PRC government has implemented certain measures in order to prevent the PRC economy from experiencing excessive inflation. Such governmental measures may cause a decrease in the level of economic activity, including demand for our agricultural produce and livestock, and have an adverse impact on economic growth in the PRC. If China's economic growth slows down or if the Chinese economy experiences a recession, the growth of demand for agricultural produce and livestock may also slow down or stop. Such events could have a material adverse effect on our business, results of operations and financial position.

Changes in government control of currency conversion and in PRC foreign exchange regulations may adversely affect our business operations

The PRC government imposes controls on the convertibility between Renminbi and foreign currencies and the remittance of foreign exchange out of China. We receive substantially all our revenue in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Our PRC subsidiaries must convert their Renminbi earnings into foreign currency before they may pay cash dividends to us or service their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current-account items may be made in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements.

However, approval from appropriate governmental authorities is required when Renminbi is converted into foreign currencies and remitted out of China for capital-account transactions, such as the repatriation of equity investment in China and the repayment of the principal of loans or debt denominated in foreign currencies. Such restrictions on foreign exchange transactions under capital accounts also affect our ability to finance our PRC subsidiaries. Our choice of investment is affected by the relevant PRC regulations with respect to capital-account and current-account foreign exchange transactions in China. Our investment decisions are additionally affected by various other measures taken by the PRC government relating to the PRC agricultural market, including those disclosed in the section entitled "Government Regulations." In addition, our transfer of funds to our subsidiaries in China is subject to approval by PRC governmental authorities in the case of an increase in registered capital, and subject to approval by and registration with PRC governmental authorities in case of shareholder loans to the extent that the existing foreign investment approvals received by our PRC subsidiaries permit any such shareholder loans at all. These limitations on the flow of funds between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions.

Fluctuations in the value of Renminbi may adversely affect our business and the value of distributions by our PRC subsidiaries

The value of Renminbi depends, to a large extent, on domestic and international economic, financial and political developments and China's governmental policies, as well as supply and demand in the local and international markets. From 1999 to 2005, the conversion of Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, was based on exchange rates set and published daily by the PBOC in light of the previous day's inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of Renminbi into the U.S. dollar was largely stable until July 2005. On July 21, 2005, the PBOC revalued Renminbi by reference to a basket of foreign currencies, including the U.S. dollar. As a result, the value of Renminbi appreciated by more than 2% on that day. Since then, the PBOC has allowed the official Renminbi exchange rate to float against a basket of foreign currencies. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. On June 19, 2010, the PBOC announced its intention to proceed with the reform of the Renminbi exchange rate regime to increase the Chinese currency's exchange rate flexibility. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 26.7% from July 21, 2005 to April 15, 2011. The Renminbi exchange rate could fluctuate widely against the U.S. dollar or any other foreign currency in the future. Since our income and profits are primarily denominated in Renminbi, any appreciation of the Renminbi will increase the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Conversely, any depreciation of the Renminbi will decrease the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Fluctuation of the value of the Renminbi will also affect the amount of our foreign debt service in Renminbi terms since we have to convert Renminbi into foreign currencies to service our indebtedness in foreign currency. We currently do not hedge against our foreign exchange rate risk.

Dividends from our PRC subsidiaries may be subject to withholding tax under PRC tax laws and we may be deemed a "resident enterprise" under the New Tax Law

The New Tax Law, which took effect on January 1, 2008, imposes a uniform income tax rate of 25% on all domestic and foreign-invested enterprises unless they qualify under certain limited exceptions. According to the New Tax Law, enterprises that are subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after January 1, 2008.

We are a holding company that is financially dependent on distributions from our subsidiaries and our business operations are principally conducted through our PRC subsidiaries. Prior to December 31, 2007, dividend payments to foreign investors made by foreign-invested enterprises, such as dividends paid to us by our PRC subsidiaries, were exempt from PRC withholding tax. The New Tax Law, which became effective January 1, 2008, provides that any dividend payment to foreign investors will be subject to a withholding tax at a rate of 10%. Pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on August 21, 2006, a company incorporated in Hong Kong will be subject to withholding income tax at the rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in that particular PRC subsidiary at the time of the distribution, subject to approval by the relevant tax authority, or 10% if it holds less than a 25% interest in that subsidiary. However, according to a Circular of the PRC State Administration of Taxation dated October 27, 2009, tax treaty benefits will be denied to "conduit" or shell companies without substantive business activities in the jurisdictions of their incorporation which have a tax treaty with the PRC providing for a reduced rate of withholding tax. Therefore, it is unclear whether dividend payments made by our PRC subsidiaries to our Hong Kong subsidiaries, which hold the equity interests in some of our PRC subsidiaries, are entitled to the 5% PRC tax rate. In addition, the holding company of Fuzhou Chaoda, one of our principal subsidiaries, is a BVI company which is not entitled to the reduced rate of 5%.

In addition, under the New Tax Law, enterprises established under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The New Tax Law provides that "de facto management body" of an enterprise is the organization that exercises substantial and overall management and control over the production, employees, books of accounts and properties of the enterprise. As a majority of the members of our management team are located in China, we may be considered a PRC resident enterprise and therefore subject to PRC enterprise income tax at the rate of 25% on our worldwide income. If our PRC subsidiaries are subject to the withholding tax at a normal rate of 10% or we or any of our non-PRC subsidiaries are deemed a PRC resident enterprise under the New Tax Law, our profitability and cash flow would be materially and adversely affected. In April 2009, the PRC State Administration of Taxation issued the Notice on Issues Relating to Determination of Chinese-Controlled Offshore Enterprises as PRC Resident Enterprises by Applying the "De Facto Management Body" Test (國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) ("Circular 82"). Circular 82 provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled offshore enterprise is located in the PRC. Circular 82 does not, however, apply to us directly because we are currently not a PRC company-controlled offshore enterprise. Although it is unclear under the New Tax Law whether we have a "de facto management body" located in China for PRC tax purposes, we cannot assure you that we will not be deemed a PRC resident enterprise, specifically in the event that new rules and interpretations are issued under which we could be deemed a PRC resident enterprise. We currently take the position that we are not a PRC resident enterprise, but we cannot assure you that PRC tax authorities will accept our position.

Additionally, even if we or our overseas subsidiaries are deemed non-resident enterprises under the New Tax Law, if our Hong Kong subsidiary directly transfers its equity interest in our PRC entities, we would be subject to PRC enterprise income tax at the rate of 10% on gains derived from such transfer, and, under the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (關於加強非居民企業股權轉讓所得企業所得稅管理的通知) issued by the State Administration of Taxation in December 2009, if we or any of our overseas subsidiaries indirectly transfer an equity interest in any of our PRC subsidiaries at the overseas holding company level, we may be subject to review by the relevant tax authorities and our capital gains on the transfer may be subject to PRC enterprise income tax at the rate of 10%.

We cannot assure you that the tax authorities will agree with our position. If we are deemed to be a PRC resident enterprise for PRC tax purposes, we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may adversely affect our business operations

In October 2005, the SAFE issued the Notice Regarding Certain Administrative Measures on Financing and Round-trip Investment by PRC Residents through Offshore Special Purpose Vehicles (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) which became effective on November 1, 2005. The notice requires PRC residents, including both legal and natural persons, to register with the local SAFE branch at the provincial level before establishing or controlling any company outside of China (an "offshore special purpose company") for the purpose of acquiring any assets of or equity interest in a PRC company and raising funds offshore. In addition, any PRC resident who is the shareholder of an offshore special purpose company is required to update its SAFE registration with the local SAFE branch with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in the PRC. Failure to comply with the required SAFE registration and updating requirements described above may result in restrictions being imposed on the foreign exchange activities of the PRC subsidiaries of that offshore special purpose company, including the increase in registered capital, the payment of dividends and other distributions or payments to the offshore special purpose company and capital inflows from the offshore entity. Failure to comply may also subject relevant PRC residents or the PRC subsidiaries of that offshore special purpose company to penalties under PRC foreign exchange administration regulations for evasion of applicable foreign exchange restrictions.

If the SAFE promulgates clarifications or regulations in the future requiring our beneficial owners who are Hong Kong permanent residents to comply with the registration procedures and update requirements described above and if our beneficial owners are unable or fail to comply with such procedures, our beneficial owners may be subject to fines and legal sanctions and our business operations may also be materially and adversely affected, particularly with respect to the ability of our Chinese subsidiaries to remit foreign currency payments out of China, which could affect our ability to service our offshore indebtedness.

Interpretation of the PRC laws and regulations involves uncertainty and the current legal environment in China could limit the legal protections available to you

Our core business is conducted in China and is governed by PRC laws and regulations. Our principal operating subsidiaries are located in China and are subject to PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have limited precedential value and can only be used as a reference. Additionally, PRC written laws are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to the agricultural industry. However, because these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty and the legal protection available to you may be limited. Depending on the governmental agency or the presentation of an application or case to such agency, we may receive less favorable interpretations of laws and regulations than our competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may cause difficulties in the enforcement of our land-use rights, entitlements under our permits, and other statutory and contractual rights and interests.

The national and regional economies in China and our business prospects may be adversely affected by natural disasters, acts of God, and occurrence of epidemics

Our business is subject to general economic and social conditions in China. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including the municipalities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome, or SARS, H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1). For instance, a serious earthquake and its successive aftershocks hit Sichuan Province in May 2008 and resulted in tremendous loss of lives and destruction of assets in the region. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. Certain areas of the PRC and our other export markets are susceptible to epidemics such as SARS, H5N1 avian flu, the human swine flu, or foot-and-mouth disease. An occurrence or recurrence of any of these or other epidemics in areas where we have production bases or livestock breeding facilities or where our products are sold may result in material disruptions to our business operations, write-downs of capital expenditures we have invested in our production bases or livestock breeding facilities, and our sales and marketing, which in turn could materially and adversely affect our business, results of operations and financial position.

We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to China, the PRC economy, the PRC agricultural industry and the selected PRC regional data contained in this document

Facts, forecasts and other statistics in this document relating to China, the PRC economy, the PRC agricultural industry and the selected PRC regional data have been derived from various official or other publications available in China and may not be consistent with other information compiled within or outside China. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Initial Purchasers or any of our or their affiliates or advisors (including legal advisors), therefore, we make no representation as to the accuracy of such facts, forecasts and statistics. Due to possibly flawed or ineffective data collection methods or discrepancies between published information and market practice, these facts, forecasts and statistics in this document may be inaccurate or may not be comparable to facts, forecasts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as in other jurisdictions. Therefore, you should not unduly rely upon the facts, forecasts and statistics with respect to China, the PRC economy, the PRC agricultural industry and the selected PRC regional data contained in this document.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth on an actual basis our borrowings and capitalization as of December 31, 2010. Except as otherwise disclosed herein, there has been no material change in our capitalization since December 31, 2010.

	As of December 31, 2010	
	Actual	
	RMB	US$
	(in thousands)	
Cash and cash equivalents	3,885,557	588,721
Short-term borrowings(1)(2)		
Bank loans — secured	—	—
Total short-term borrowings	—	—
Long-term borrowings(1)(2)		
2010 Convertible Bonds	1,050,522	159,170
Total long-term borrowings	1,050,522	159,170
Equity attributable to owners of the parent		
Share capital (HK$0.1 par value per share, 3,340,676,491 shares issued and fully paid)	336,984	51,058
Reserves	24,274,250	3,677,917
Total equity attributable to the owners of the Company	24,611,234	3,728,975
Total capitalization(3)	25,661,756	3,888,145

(1) Our borrowings do not include any accrual for capital commitments or contingent liabilities. As of December 31, 2010, our capital commitments were RMB29.0 million (US$4.4 million) and we had no contingent liabilities.

(2) As of December 31, 2010, our Non-Guarantor Subsidiaries had capital commitments of approximately RMB29.0 million (US$4.4 million).

(3) Total capitalization includes total long-term borrowings plus total equity attributable to owners of the parent.

Except as otherwise disclosed in this document, and other than the drawdowns and repayments of other borrowings in the ordinary course of business, there has been no material adverse change in our borrowings and capitalization since December 31, 2010.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables present our selected financial and other data. The selected consolidated income statement for the years ended June 30, 2008, 2009 and 2010 and the selected consolidated balance sheet as of June 30, 2008, 2009 and 2010 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as of such dates, as audited by GTHK, now known as JBPB & Co., independent certified public accountants, and included elsewhere in this document. Due to the merger of the businesses of GTHK and BDO to practice in the name of BDO as announced on November 26, 2010, GTHK resigned and BDO was appointed as auditors of the Company effective from December 2, 2010. The selected financial data except for EBITDA data as of and for the six-month periods ended December 31, 2009 and 2010 is derived from our unaudited condensed consolidated interim financial information included elsewhere in this document. The unaudited selected consolidated interim financial information as of and for the six-month periods ended December 31, 2009 and 2010 contains all judgments that our management believes are necessary for the fair presentation of such information. Results for interim periods are not indicative of results for the full year.

Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The selected financial data below should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes to those statements included elsewhere in this document.

Selected Consolidated Income Statement Data

	Year ended June 30,			
	2008	2009	2010	2010
	RMB	RMB	RMB	US$
	(in thousands)			
Turnover	5,032,594	6,126,818	6,963,717	1,055,109
Cost of sales	(1,538,393)	(1,976,168)	(2,386,353)	(361,569)
Gross profit	3,494,201	4,150,650	4,577,364	693,540
Other revenues	65,282	59,817	45,704	6,925
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	113,333	18,492	153,480	23,255
Selling and distribution expenses	(554,669)	(699,874)	(779,547)	(118,133)
General and administrative expenses	(210,361)	(219,588)	(153,274)	(23,223)
Research expenses	(57,224)	(84,165)	(27,078)	(4,103)
Other operating expenses	(146,131)	(219,441)	(248,046)	(37,583)
Profit from operations	2,704,431	3,005,891	3,568,603	540,698
Finance costs	(137,756)	(321,649)	(79,291)	(12,014)
Share of net profits of associates	131,868	146,447	174,646	26,462
Change in fair value of convertible bonds[1]	(726,480)	—	—	—
Gain on redemption of convertible bonds[1]	—	1,180,229	—	—
Gain on deemed acquisition of additional interest in an associate	—	5,856	1,678	254
Gain/(Loss) on deemed disposal of interest in an associate	882	—	(6,923)	(1,049)
Loss on partial disposals of an associate	—	—	(1,637)	(248)
Loss on disposals of available-for-sale investments	—	(31,713)	—	—
Profit before income tax	1,972,945	3,985,061	3,657,076	554,103
Income tax expenses	(20,679)	(233)	(244)	(37)
Profit for the year	1,952,266	3,984,828	3,656,832	554,066
Attributable to:				
Owners of the Company	1,955,757	3,986,381	3,658,874	554,375
Non-controlling interests	(3,491)	(1,553)	(2,042)	(309)
	1,952,266	3,984,828	3,656,832	554,066
Other Financial Data				
EBITDA[2]	2,959,328	3,516,085	4,195,112	635,623
EBITDA margin[3]	58.8%	57.4%	60.2%	60.2%

	Six months ended December 31,		
	2009	2010	2010
	RMB	RMB (in thousands) (unaudited)	US$
Turnover	3,236,920	3,835,298	581,106
Cost of sales	(1,168,341)	(1,452,848)	(220,128)
Gross profit	2,068,579	2,382,450	360,978
Other revenues	21,934	49,102	7,440
Loss arising from changes in fair value less estimated point-of-sale costs of biological assets	(184,182)	(42,658)	(6,463)
Selling and distribution expenses	(344,086)	(431,707)	(65,410)
General and administrative expenses	(74,001)	(235,879)	(35,739)
Research expenses	(16,025)	(24,461)	(3,706)
Other operating expenses	(109,098)	(166,267)	(25,192)
Profit from operations	1,363,121	1,530,580	231,908
Finance costs	(65,380)	(33,361)	(5,055)
Share of net profit/loss of associates	77,855	(425)	(64)
Gain on disposal of an associate	—	48,174	7,299
Gain on deemed acquisition of additional interest in an associate of interest in an associate	1,678	—	—
Loss on deemed disposal of interest in an associate	(3,297)	—	—
Loss on partial disposal of an associate	(10,724)	—	—
Profit before income tax	1,363,253	1,544,968	234,088
Income tax expenses	(144)	(88)	(13)
Profit for the period	1,363,109	1,544,880	234,075
Attributable to:			
Owners of the Company	1,364,054	1,546,794	234,365
Non-controlling interests	(945)	(1,914)	(290)
	1,363,109	1,544,880	234,075
Other Financial Data			
EBITDA(2)	1,773,160	1,906,125	288,828
EBITDA margin(3)	54.8%	49.7%	49.7%

(1) In May 2006, we issued HK$1,344.0 million (equivalent to approximately RMB1,384.3 million at the date of issue) zero coupon convertible bonds with a maturity date of May 8, 2011. During the year ended June 30, 2009, we repurchased convertible bonds with principal amount of HK$35.0 million from the market. As of June 30, 2009, all of the convertible bonds issued in May 2006 had been either repurchased or redeemed and had been cancelled.

(2) *We calculate EBITDA by adding depreciation and amortization expenses to profit from operations and subtracting interest income and gain arising from changes in fair values less estimated point-of-sale costs of biological assets. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to incur and service debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit attributable to owners or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, finance costs, losses from associates or other non-operating cash expenses. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. The following table provides a reconciliation of profit from operations, the most relevant HKFRS term, to EBITDA:*

	Year ended June 30,				Six months ended December 31,		
	2008	2009	2010		2009	2010	2010
	RMB	RMB (in thousands)	RMB	US$	RMB	RMB (in thousands)	US$
Profit from operations	2,704,431	3,005,891	3,568,603	540,698	1,363,121	1,530,580	231,908
Less interest income	(38,641)	(28,283)	(6,000)	(909)	(3,778)	(13,066)	(1,980)
Less (gain)/loss arising from changes in fair value less estimated point-of-sale costs of biological assets	(113,333)	(18,492)	(153,480)	(23,255)	184,182	42,658	6,463
Net depreciation and amortization	406,871	556,969	785,989	119,089	229,635	346,083	52,437
EBITDA	2,959,328	3,516,085	4,195,112	635,623	1,773,160	1,906,255	288,828

(3) *EBITDA margin is calculated by dividing EBITDA by turnover.*

Selected Consolidated Balance Sheet Data

	As of June 30,			
	2008	2009	2010	2010
	RMB	RMB (in thousands)	RMB	US$
NON-CURRENT ASSETS				
Property, plant and equipment	4,078,224	4,814,331	7,369,573	1,116,602
Construction-in-progress	571,657	932,997	270,690	41,014
Prepaid premium for land leases	4,567,777	4,808,876	5,420,459	821,282
Biological assets	1,564,712	1,769,100	2,628,101	398,197
Available-for-sale investments	150,480	—	—	—
Deferred development costs	32,790	26,980	33,730	5,111
Deferred expenditure	249,220	257,632	473,027	71,671
Other long-term deposits	3,500	—	—	—
Intangible assets	—	—	888,800	134,667
Interests in associates	818,530	974,007	879,368	133,238
Total non-current assets	12,036,890	13,583,923	17,963,748	2,721,782
CURRENT ASSETS				
Prepaid premium for land leases	111,472	126,911	151,842	23,006
Biological assets	788,204	953,427	965,576	146,299
Inventories	21,285	16,470	36,912	5,593
Trade receivables	319,703	381,201	418,385	63,392
Other receivables, deposits and prepayments	389,153	379,371	177,502	26,894
Cash and cash equivalents	1,280,231	3,106,713	2,044,349	309,750
Total current assets	2,910,048	4,964,093	3,794,566	574,934
CURRENT LIABILITIES				
Amounts due to a related company	46,319	60,512	51,618	7,821
Trade payables	16,401	5,959	27,665	4,192
Other payables and accruals	122,326	136,976	135,421	20,518
Bank loans	—	24,000	14,500	2,197
Guaranteed senior notes(1)	—	1,542,571	—	—
Convertible bonds(2)	2,084,589	—	—	—
Total current liabilities	2,269,635	1,770,018	229,204	34,728
NET CURRENT ASSETS	640,413	3,194,075	3,565,362	540,206
TOTAL ASSETS LESS CURRENT LIABILITIES	12,677,303	16,777,998	21,529,110	3,261,988
NON-CURRENT LIABILITIES				
Guaranteed senior notes	1,539,436	—	—	—
Deferred tax liabilities	20,655	20,655	20,655	3,130
Total non-current liabilities	1,560,091	20,655	20,655	3,130
Net assets	11,117,212	16,757,343	21,508,455	3,258,857
EQUITY				
Equity attributable to the owners of the Company				
Share capital	257,306	309,623	323,892	49,075
Reserves	10,854,799	16,444,166	20,920,824	3,169,822
	11,112,105	16,753,789	21,244,716	3,218,897
Non-controlling interests	5,107	3,554	263,739	39,961
Total equity	11,117,212	16,757,343	21,508,455	3,258,858

	As of December 31,	
	2010	2010
	RMB	US$
	(in thousands)	
	(unaudited)	
NON-CURRENT ASSETS		
Property, plant and equipment	8,307,559	1,258,721
Construction-in-progress	736,804	111,637
Prepaid premium for land leases	5,816,783	881,331
Biological assets	2,715,735	411,475
Available-for-sale investments	1,370,619	207,670
Deferred development costs	26,955	4,084
Deferred expenditure	527,640	79,945
Other long-term deposits	868,600	131,606
Interest in associates	7,902	1,197
Total non-current assets	20,378,597	3,087,666
CURRENT ASSETS		
Prepaid premium for land leases	158,735	24,051
Biological assets	930,666	141,010
Inventories	69,816	10,578
Trade Receivables	221,746	33,598
Other receivables, deposits and prepayments	509,301	77,167
Other cash equivalents	3,885,557	588,721
Total current assets	5,775,821	875,125
CURRENT LIABILITIES		
Amounts due to a related company	63,708	9,653
Trade payables	28,736	4,354
Other payables and accruals	117,738	17,839
Bank loans	—	—
Total current liabilities	210,182	31,846
NET CURRENT ASSETS	5,565,639	843,279
TOTAL ASSETS LESS CURRENT LIABILITIES	25,944,236	3,930,945
NON-CURRENT LIABILITIES		
Convertible bonds	1,050,522	159,170
Deferred tax liabilities	20,655	3,130
Total non-current liabilities	1,071,177	162,300
Net assets	24,873,059	3,768,645
EQUITY		
Equity attributable to the owners of the Company		
Share capital	336,984	51,058
Reserves	24,274,250	3,677,917
	24,611,234	3,728,975
Non-controlling interests	261,825	39,670
Total equity	24,873,059	3,768,645

(1) *In February 2005, we issued $225.0 million, 7.75% guaranteed senior notes which were fully repaid on their maturity on February 8, 2010.*

(2) *In May 2006, we issued HK$1,344 million zero coupon convertible bonds with a maturity date of May 8, 2011. During the year ended June 30, 2009, all outstanding convertible bonds were either repurchased on the market or redeemed. As a result, all of our convertible bonds issued in May 2006 had been cancelled as of June 30, 2009.*

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the section entitled "Selected Consolidated Financial and Other Data" and our audited consolidated financial statements for the years ended June 30, 2008, 2009 and 2010 and our unaudited consolidated financial statements for the six months ended December 31, 2010, including the notes thereto, included elsewhere in this document. All significant intra-group transactions, balances and unrealized gains on intra-group transactions have been eliminated.

Our consolidated financial statements were prepared in accordance with HKFRS, which differ in certain material respects from generally accepted accounting principles in other jurisdictions. Unless otherwise specified, references in this section of the document to "2008," "2009" and "2010" refer to our financial years ended June 30, 2008, 2009 and 2010, respectively.

Overview

We are a leading producer of agricultural produce in China. We grow crops, principally vegetables and fruit, in our strategically located production bases across China. We operate an industrialized farming business model, extending from cultivation to the distribution and marketing of agricultural produce. We employ standardized production processes and a centralized management structure, and through our large-scale farming operations and extensive distribution network, we supply quality agricultural produce to a diversified customer base in the domestic market and in international markets.

As one of China's leading agricultural companies, we have and will continue to focus on our core business of cultivation and distribution of agricultural produce since we commenced operations in 1997. We cultivate quality agricultural produce from our own production bases on farmland consisting of vegetable lands, fruit gardens and tea gardens. We obtain land-use rights to our farmland through long-term leases, typically for periods of between 20 to 25 years for vegetable land, and 30 to 70 years for other farmland. Over the years, we have steadily expanded our production bases in strategic locations across China, covering different latitudes and elevations, from the eastern and the coastal regions to southern China and central China. As of December 31, 2010, we operated a total of 30 production bases covering 13 provinces and municipalities in the PRC, with a total cultivated agricultural land area of approximately 714,933 mu (approximately 47,662 hectares). In addition, as of the same date, we had entered into long-term leases for approximately 300,000 mu of land held as land reserves which we plan to convert into operating production bases in the next few years to support our growth. In addition to our core business of cultivation and distribution of agricultural produce, we also engage in the breeding and sale of livestock, principally goats and dairy cattle, and the operation of tree plantations for sale.

Our industrialized farming business model involves the consolidation of fragmented farmland from local farmers in China. By achieving economies of scale, we are able to supply a large and stable supply of agricultural produce on a nationwide basis. This in turn allows us to bypass intermediaries and directly supply our produce to the major vegetable wholesale markets in China and have access to multiple distribution channels including domestic wholesalers, institutional customers and export customers. For the six months ended December 31, 2010, sales to domestic wholesale customers, institutional customers and export customers constituted approximately 69.1%, 5.1% and 25.8% of our total agricultural produce, respectively.

Our turnover for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010 was RMB5,032.6 million, RMB6,126.8 million, RMB6,963.7 million and RMB3,835.3 million, respectively. For the same periods, our profit attributable to owners of the Company was RMB1,955.8 million, RMB3,986.4 million, RMB3,658.9 million and RMB1,546.8 million, respectively. Sales volume of our agricultural produce for the same periods was approximately 2.0 million tonnes, 2.5 million tonnes, 2.8 million tonnes and 1.4 million tonnes, respectively. Our net assets as of June 30, 2008, 2009 and 2010 and December 31, 2010 amounted to RMB11,117.2 million, RMB16,757.3 million, RMB21,508.5 million and RMB24,873.1 million, respectively.

Factors Affecting Our Performance

The operating performance of our agricultural produce business is affected by the following key factors:

- *Seasonality and weather*. Our operations are influenced to a large extent by the forces of nature. Seasonal conditions, weather patterns and the occurrence of natural disasters will affect the yield of our production bases as well as the market prices of agricultural produce in general. For example, the extended cold weather in late 2010 and the first quarter of 2011 and the drought in Northern and Eastern China in the first quarter of 2011 caused our production yield per mu to decrease slightly in the six months ended December 31, 2010 and the first quarter of 2011. We have not experienced a material seasonal fluctuation in terms of output volume or the prices of our products due in part to the geographical diversification of our production bases. We believe such geographical diversification will continue to enable us to have a consistent supply of agricultural products throughout the year. However, we cannot assure you that our production yield and operations will not suffer from natural disasters, seasonal conditions or extreme weather conditions.
- *Production yield*. Because we have a limited number of agricultural production bases and farmland area, the production yield of such production bases will determine in large part the size of the inventory available for sale and thus our turnover. Factors which can influence the production yield of our farmland include (i) product mix, (ii) weather conditions, (iii) R&D efforts resulting in improved cultivation techniques and more viable crop species, and (iv) the condition of the various production bases, which can depend on the degree of capital investment such as the construction of greenhouses and soil improvement efforts that have been made at such production bases.
- *Price volatility*. The agricultural produce business in general is subject to a high degree of price volatility as the supply of agricultural produce may be adversely affected by unpredictable factors such as natural disasters, adverse weather conditions and crop diseases. Although we sell a significant portion of our agricultural produce at spot market rates, we believe that we can mitigate the adverse effects of the price volatility by diversifying the locations of our production bases and maintaining a diverse product mix. In addition, we believe that we are positioned to take advantage of such price volatility as our centralized information center in Fuzhou closely monitors market conditions in various regions of the PRC and allocates our overall resources accordingly with an aim to capture higher margins resulting from imbalances in supply and demand. However, we cannot assure you that our operations will not be adversely affected by significant price volatility.
- *Cost of inputs and raw materials*. The key components of our cost of inputs are the costs associated with land-use rights, construction of infrastructure, labor, fertilizers, seeds and pesticides. Our expansion plans involve the acquisition of additional land-use rights and as a result, the non-operating costs associated with land leases will increase. Our management believes, however, that the PRC government's long-standing policy of encouraging the construction of agricultural infrastructure and improvements in farming techniques should aid us in securing land-use rights for the foreseeable future. However, our ability to acquire land-use rights for suitable farmland is dependent on a number of factors, including soil quality, climate conditions, cost, PRC government regulations and others. Fluctuations in the cost and supply of suitable land-use rights, raw materials, labor and transportation services will continue to affect our performance. While the cost of labor in the PRC is expected to increase due to increased competition and more stringent worker protection regulations, we believe we can secure a workforce at reasonable costs to suit our business plans. In addition, we have entered into long-term contracts with a supplier of quality fertilizers. See "Related Party Transactions."
- *Taxation*. Our operating results depend in part on the tax concessions and preferential tax treatment accorded by the PRC government to certain leading agricultural enterprises in particular and to business enterprises in the PRC agricultural industry in general. See "— Taxation."

- *General macroeconomic conditions*. Demand for agricultural produce in China is directly linked to China's economic development and the disposable household income of Chinese consumers. We have benefited from and expect to continue to benefit from the continuing growth of the PRC economy and the increasing living standards of Chinese consumers, which drive the demand for quality agricultural produce. On the other hand, our business may be affected by any slowdown in growth or recession of the PRC economy.

Critical Accounting Policies and Estimates

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Our significant accounting policies, which are important for an understanding of our financial position and results of operations, are set forth in detail in note 2 to our consolidated financial statements as of and for the year ended June 30, 2010 included in this document. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items such as revenue recognition, cost or expense allocation and provision. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our consolidated financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our consolidated financial statements.

Biological assets

Biological assets are living animals and plants that are to be transformed into another form for sale or into further biological assets. Vegetables are measured by our management at fair value with reference to a weighted average of market-determined prices, cultivation areas, species, growing conditions, cost incurred and the expected yield. Livestock are measured at fair value by our management with reference to market-determined prices for livestock of similar size, species and age. For fruit trees, tea trees and plantation trees, we engage an independent third-party valuer who determines fair value less estimated point-of-sale costs with reference to the present value of expected net cash flows generated by such assets, discounted at a current market-determined pre-tax rate.

The gain or loss arising on initial recognition of the 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 recognized in our income statement for the financial period in which it arises.

Impairment of non-financial assets

Property, plant and equipment, construction-in-progress, deferred development costs, deferred expenditure, prepaid premiums for land leases and interests in subsidiaries and associates are subject to impairment testing. Our management tests assets for impairment whenever there are indications that the asset's carrying amount may not be recoverable, such as when an asset has been destroyed or damaged beyond reasonable repair. We recognize an impairment loss 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, our management discounts the estimated future cash flows generated by the impaired asset to its present value using a pre-tax discount rate that reflects the asset's current market assessment of the time value of money and the risks specific to the asset. Our management will reverse an impairment loss if there has been a favorable change in the estimates used to determine the asset's recoverable amount, but 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 amortization if no impairment loss had been recognized.

Long-term prepaid rentals

Long-term prepaid rentals are stated at cost less accumulated amortization and impairment losses. Amortization is calculated on the straight-line method according to the term of the respective leases, which typically vary from 20 to 25 years for vegetable land and 30 to 70 years for other farmland.

Deferred expenditure

Deferred expenditure is stated at cost less accumulated amortization and accumulated impairment losses. Amortization is charged to the income statement on the straight-line method over a period of three to ten years.

Research and development costs

Expenditure on research activities is recognized as an expense in the period incurred unless it is capitalized. We capitalize expenditures on development activities as "deferred development expenditures" when we can demonstrate, based on our management's assessment, the technical feasibility of completing the asset such that it will be available for commercial use or sale, our intention to complete the asset, our 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 costs of the asset's development. Capitalized development costs are stated at cost less accumulated amortization and impairment losses. We recognize non-capitalized development expenditures as expenses in the financial period they are incurred. Amortization of capitalized development costs is charged to our income statement on a straight-line method over the asset's estimated useful life of not more than five years. Our management reviews both the period and method of amortization semi-annually with our auditors. Development costs previously recognized as an expense are not recognized as an asset in the subsequent period.

Convertible bonds

1. 2006 Convertible Bonds. 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. As the conversion price for our convertible bonds are subject to change, the conversion would not result in settlement by the exchange of a fixed number of equity instruments. Therefore we have determined that our convertible bonds do not contain any equity component and the entire convertible bonds are designated as financial liabilities at fair value through profit or loss. These convertible bonds are carried at fair value at the balance sheet date with changes in fair value being recognized in our income statement. Transaction costs that are directly attributable to the issue of the convertible bonds designated as financial liabilities at fair value through profit or loss are recognized immediately in our income statement. In determining if financial liabilities may be designated at initial recognition as at fair value through profit or loss, our management considers whether the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing 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.

In the year ended June 30, 2009, we repurchased and redeemed all our outstanding convertible bonds issued in May 2006. The change in fair value charged to our income statement for the years ended June 30, 2008, 2009 and 2010 was RMB726.5 million, nil and nil, respectively, representing the changes in fair value of our convertible bonds issued in May 2006.

2. 2010 Convertible Bonds. Convertible bonds we have issued that contain both liability and conversion option components are classified separately into their respective items on initial recognition. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of our own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest for similar non-convertible debts. The difference between the proceeds of the issuance of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (the convertible bonds equity reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortized cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of our Company, will remain in the convertible bonds equity reserve until the embedded option is exercised, in which case the balance stated in convertible bonds equity reserve will be transferred to share premium. Where the option remains unexercised at the expiry dates, the balance stated in convertible bonds equity reserve will be released as retained profits. No gain or loss is recognized upon conversion or expiration of the option.

On September 1, 2010, we issued an aggregate principal amount of US$200.0 million 3.7% secured guaranteed convertible bonds due 2015.

Certain Income Statement Items

We set forth below a summary of certain items in our consolidated income statement.

Turnover. Turnover is realized from sales of crops (comprising vegetables, fruit, rice and tea) and livestock. We recognize our turnover 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 passed. The following tables set forth our turnover broken down by products for the periods indicated:

	Year ended June 30,							Six months ended December 31,				
	2008		2009		2010			2009		2010		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
	(in thousands, except tonnage and percentages)											
Turnover by product												
Sales of crops	4,988,101	99.1	6,078,632	99.2	6,902,597	1,045,848	99.1	3,212,991	99.3	3,810,169	577,298	99.3
Sales of livestock	44,493	0.9	48,186	0.8	61,120	9,261	0.9	23,929	0.7	25,129	3,807	0.7
Total turnover	5,032,594	100%	6,126,818	100%	6,963,717	1,055,109	100%	3,236,920	100%	3,835,298	581,108	100%

Cost of sales. Cost of sales mainly consists of the raw materials used in our agricultural produce business, such as organic fertilizers, seeds and pesticides, production overheads and staff costs, such as wages, salaries and pension costs (consisting of defined contribution plans), amortization and depreciation of fixed assets, primarily those of infrastructure for our production bases as well as land rental costs.

Other revenues. Other revenues mainly consist of interest income and income from sales of milk.

Gains arising from changes in fair value less estimated point-of-sale costs of biological assets. Gains arising from changes in fair value less estimated point-of-sale costs of biological assets represent gains or losses that arise on measuring biological assets at fair value less estimated point-of-sale costs and are recognized in the income statement in the period in which they arise. See note 19 to our financial statements as of and for the years ended June 30, 2009 and 2010 and note 11 to our interim report as of and for the six months ended December 31, 2010 included elsewhere in this document.

Selling and distribution expenses. Selling and distribution expenses consist primarily of transportation costs, staff costs and packaging materials for agricultural produce we sell.

General and administrative expenses. General and administrative expenses primarily include wages, salaries, employee stock options and other benefits for administrative and management personnel. Administrative expenses also include depreciation of our administrative facilities.

Research expenses. Research expenses generally consist of expenditures relating to new product development and improvement of existing production technologies and are recognized on our income statement as expenses to the extent they are not capitalized.

Other operating expenses. Other operating expenses primarily include expenses incurred for fallow farmland and maintenance thereof, impairment losses on property, plant and equipment, natural crop losses, and compensation to farmers who used to occupying the land in connection with land leasing.

Finance costs. Finance costs primarily include interest paid on our guaranteed senior notes issued in February 2005 and our convertible bonds issued in May 2006 and September 2010, as well as interest paid on bank borrowings.

Share of net profit of associates. Share of net profit of associates primarily includes our share of profits of Asian Citrus Holdings Limited, an investment holding company incorporated in Bermuda with its principal operations in the PRC. We sold a portion of our equity interest in Asian Citrus Holdings Limited on July 30, 2010, which reduced our equity interest in this company from 22.81% to 19.09%. As of December 31, 2010, we hold a 13.63% equity interest in Asian Citrus Holdings Limited. In the opinion of our directors, we ceased to have significant influence on the voting rights of this company from the date of the disposal, and as such our remaining investment in Asian Citrus Holdings Limited has been reclassified as an available-for-sale investment from interest in associate as of December 31, 2010.

Change in fair value of convertible bonds. Change in fair value of convertible bonds reflects changes in the fair value of the convertible bonds we issued in May 2006.

Gain on redemption of convertible bonds. Gain on redemption of convertible bonds refers to the gain we recognized upon redemption of the convertible bonds we issued in May 2006 as a result of the reverse of cumulative fair value changes recorded in previous financial years.

Income tax. Income tax primarily consists of tax payable by our subsidiaries in the PRC. The Cayman Islands levies no tax on our income. Our Hong Kong subsidiary is subject to Hong Kong tax on Hong Kong-source income, but it has not had any Hong Kong-source income to date. See "— Taxation."

Results of Operations

The following tables set forth a breakdown of some of our income statement items for the periods indicated:

	Year ended June 30,						
	2008		2009		2010		
	RMB	% of turnover	RMB	% of turnover	RMB	US$	% of turnover
	(in thousands, except percentages)						
Turnover	5,032,594	100	6,126,818	100	6,963,717	1,055,109	100
Cost of sales	(1,538,393)	30.6	(1,976,168)	32.3	(2,386,353)	(361,569)	34.3
Gross profit	3,494,201	69.4	4,150,650	67.7	4,577,364	693,540	65.7
Other revenues	65,282	1.3	59,817	1.0	45,704	6,925	0.7
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	113,333	2.3	18,492	0.3	153,480	23,255	2.2
Selling and distribution expenses	(554,669)	11.0	(699,874)	11.4	(779,547)	(118,113)	11.2
General and administrative expenses	(210,361)	4.2	(219,588)	3.6	(153,274)	(23,223)	2.2
Research expenses	(57,224)	1.1	(84,165)	1.4	(27,078)	(4,103)	0.4
Other operating expenses	(146,131)	2.9	(219,441)	3.6	(248,046)	(37,583)	3.6
Profit from operations	2,704,431	53.7	3,005,891	49.1	3,568,603	540,698	51.2
Finance costs	(137,756)	2.7	(321,649)	5.2	(79,291)	(12,014)	1.1
Share of net profit of associates	131,868	2.6	146,447	2.4	174,646	26,462	2.5
Change in fair value of convertible bonds	(726,480)	14.4	—	—	—	—	—
Gain on redemption of convertible bonds	—	—	1,180,229	19.3	—	—	—
Gain on deemed acquisition of additional interest in an associate	—	—	5,856	0.1	1,678	254	—
Gain/(Loss) on deemed disposal of interest in an associate	882	—	—	—	(6,923)	(1,049)	0.1
Loss on partial disposal of an associate	—	—	—	—	(1,637)	248	—
Loss on disposals of available-for-sale investments	—	—	(31,713)	0.5	—	—	—
Profit before income tax	1,972,945	39.2	3,985,061	65.0	3,657,076	554,103	52.5
Income tax expense	(20,679)	0.4	(233)	0.0	(244)	(37)	0.0
Profit for the year	1,952,266	38.8	3,984,828	65.0	3,656,832	554,066	52.5
Attributable to:							
Owners of the Company	1,955,757	38.9	3,986,381	65.1	3,658,874	554,375	52.5
Non-controlling interests	(3,491)	0.1	(1,553)	0.1	(2,042)	(309)	0.0

	Six months ended December 31,				
	2009		2010		
	RMB	% of turnover	RMB	US$	% of turnover
	(in thousands, except percentages)				
Turnover	3,236,920	100	3,835,298	581,106	100
Cost of sales	(1,168,341)	36.1	(1,452,848)	(220,128)	37.9
Gross profit	2,068,579	63.9	2,382,450	360,978	62.1
Other revenues	21,934	0.7	49,102	7,440	1.3
Gain/(Loss) arising from changes in fair value less estimated point-of-sale costs of biological assets	(184,182)	5.7	(42,658)	(6,463)	1.1
Selling and distribution expenses	(344,086)	10.6	(431,707)	(65,410)	11.3
General and administrative expenses	(74,001)	2.3	(235,879)	(35,739)	6.2
Research expenses	(16,025)	0.5	(24,461)	(3,706)	0.6
Other operating expenses	(109,098)	3.4	(166,267)	(25,192)	4.3
Profit from operations	1,363,121	42.1	1,530,580	231,908	39.9
Finance costs	(65,380)	2.0	(33,361)	(5,055)	0.9
Share of profits and losses of associates	77,855	2.4	(425)	(64)	—
Gain on disposal of an associate	—	0.1	48,174	7,299	1.3
Gain on deemed acquisition of additional interest in an associate of interest in an associate	1,678	0.1	—	—	—
Gain/(Loss) on deemed disposal of interest in an associate	(3,297)		—	—	—
Loss on partial disposal of an associate	(10,724)	0.3	—	—	—
Profit before income tax	1,363,253	42.1	1,544,968	234,088	40.3
Income tax expenses	(144)	0.0	(88)	(13)	—
Profit for the year	1,363,109	42.1	1,544,880	234,075	40.3
Attributable to:					
Owners of the Company	1,364,054	42.1	1,546,794	234,365	40.3
Non-controlling interests	(945)	—	(1,914)	(290)	—

Six months ended December 31, 2010 compared to six months ended December 31, 2009

Turnover. Turnover increased approximately 18.5% to RMB3,835.3 million for the six months ended December 31, 2010 from RMB3,236.9 million for the six months ended December 31, 2009, primarily due to an increase of approximately 18.6% in turnover from sales of crops to RMB3,810.2 million for the six months ended December 31, 2010 from RMB3,212.0 million for the six months ended December 31, 2009 . The increase in turnover from sales of crops was primarily due to increased sales volume to approximately 1.4 million tonnes for the six months ended December 31, 2010 from approximately 1.3 million tonnes for the six months ended December 31, 2009, which was primarily due to an increase in weighted average production area. Our average selling price for crops for the six months ended December 31, 2010 was approximately RMB2.74 per kilogram, an increase from approximately RMB2.47 per kilogram for the six months ended December 31, 2009.

Turnover from sales of livestock increased approximately 5.0% to RMB25.1 million in the six months ended December 31, 2010 from RMB23.9 million in the six months ended December 31, 2009, primarily due to increased sales volume.

Cost of sales and gross profit. Cost of sales increased approximately 24.4% to RMB1,452.8 million in the six months ended December 31, 2010 from RMB1,168.6 million in the six months ended December 31, 2009, and gross profit increased approximately 15.2% to RMB2,382.5 million in the six months ended December 31, 2010 from RMB2,068.6 million in the six months ended December 31, 2009 primarily due to increased sales volume. Our gross profit margin decreased to 62.1% in the six months ended December 31, 2010 from 63.9% in the six months ended December 31, 2009, primarily due to an increase in labor costs and an increase in depreciation costs mainly related to expenditures on irrigation systems and crop shelters.

Other revenues. Other revenues increased approximately 123.9% to RMB49.1 million in the six months ended December 31, 2010 from RMB21.9 million in the six months ended December 31, 2009.

Changes in fair value of biological assets. Our loss arising from changes in fair value less estimated point-of-sale costs of biological assets decreased approximately 76.8% to RMB42.7 million in the six months ended December 31, 2010 from RMB184.2 million in the six months ended December 31, 2009.

Selling and distribution expenses. Selling and distribution expenses increased approximately 25.5% to RMB431.7 million in the six months ended December 31, 2010 from RMB344.1 million in the six months ended December 31, 2009, primarily due to costs associated with increased sales volume and higher oil prices, which led to increased costs for transportation and petroleum-based packaging materials. As a percentage of turnover, selling and distribution expenses were approximately 11.3% in the six months ended December 31, 2010 compared to 10.6% in 2009.

General and administrative expenses. General and administrative expenses increased approximately 218.6% to RMB235.9 million in the six months ended December 31, 2010 from RMB74.0 million in the six months ended December 31, 2009, primarily due to an increase in employee share option benefits to RMB160.1 million in the six months ended December 31, 2010 from RMB7.0 million in the six months ended December 31, 2009. During the six months ended December 31, 2010, 71,650,000 share options were granted. As a percentage of turnover, general and administrative expenses were approximately 6.2% in the six months ended December 31, 2010 compared to approximately 2.3% in the six months ended December 31, 2009.

Research expenses. Research expenses increased approximately 52.6% to RMB24.5 million in the six months ended December 31, 2010 from RMB15.6 million in the six months ended December 31, 2009, primarily due to an increase in the number of ongoing research projects at the time.

Other operating expenses. Other operating expenses increased approximately 52.4% to RMB166.3 million in the six months ended December 31, 2010 from RMB109.1 million in the six months ended December 31, 2009, primarily due to expenses incurred in relation to fallow production areas being accounted for as other operating expenses rather than cost of sales. Our production areas may be fallow either due to severe weather conditions, which render such areas unproductive for the season in question, or due to planned seasonal rotation of farmland. The expenses associated with fallow production areas generally increased as we increased our production area.

Finance costs. Finance costs decreased approximately 49.0% to RMB33.4 million in the six months ended December 31, 2010 from RMB65.4 million in the six months ended December 31, 2009, primarily due to repayment of guaranteed senior notes, partially offset by interest expenses on the 2010 Convertible Bonds.

Share of net profits of associates. Our share of net loss of associates was RMB0.4 million in the six months ended December 31, 2010 as compared to a share of net profits of associates of RMB77.9 million in the six months ended December 31, 2009, as Asian Citrus Holdings Limited, historically our major associate, ceased to be classified as an associate following the sale of a portion of our equity interests in this company in July 2010.

Profit before income tax. Profit before income tax increased approximately 13.3% to RMB1,545.0 million in the six months ended December 31, 2010 from RMB1,363.3 million in the six months ended December 31, 2009.

Income tax expense. Income tax expense decreased approximately 38.9% to RMB88,000 in the six months ended December 31, 2010 from RMB144,000 in the six months ended December 31, 2009. See "—Taxation" below.

Profit attributable to owners. Profit attributable to owners increased approximately 13.4% to RMB1,546.8 million in the six months ended December 31, 2010 from RMB1,364.1 million in the six months ended December 31, 2009, as a result of the cumulative effect of the foregoing factors.

Year ended June 30, 2010 compared to year ended June 30, 2009

Turnover. Turnover increased approximately 13.7% to RMB6,963.7 million in 2010 from RMB6,126.8 million in 2009, primarily due to an increase of approximately 13.6% in turnover from sales of crops to RMB6,902.6 million in 2010 from RMB6,078.6 million in 2009. The increase in turnover from sales of crops was primarily due to increased sales volume from approximately 2.5 million tonnes in 2009 to approximately 2.8 million tonnes in 2010, which was primarily due to an increase in production area. Our average selling price for crops in 2010 was approximately RMB2.5 per kilogram, an increase from approximately RMB2.4 per kilogram in 2009.

Turnover from sales of livestock increased approximately 26.8% to RMB61.1 million in 2010 from RMB48.2 million in 2009 primarily due to increased sales volume.

Cost of sales and gross profit. Cost of sales increased approximately 20.8% to RMB2,386.4 million in 2010 from RMB1,976.2 million in 2009, and gross profit increased approximately 10.3% to RMB4,577.4 million in 2010 from RMB4,150.7 million in 2009. Our gross profit margin decreased to 65.7% in 2010 from 67.7% in 2009, primarily due to an increase in depreciation costs mainly related to the expenditures on irrigation systems and crop shelters in 2010.

Other revenues. Other revenues decreased approximately 23.6% to RMB45.7 million in 2010 compared to RMB59.8 million in 2009, primarily as a result of a decrease in interest income, primarily due to a decrease in bank balances following the redemption of convertible bonds issued in 2006 and repayment in 2010 of the guaranteed senior notes we issued in 2005.

Changes in fair value of biological assets. Our gain arising from changes in fair value less estimated point-of-sale costs of biological assets increased approximately 730.0% to RMB153.5 in 2010 from RMB18.5 million in 2009.

Selling and distribution expenses. Selling and distribution expenses increased approximately 11.4% to RMB779.5 million in 2010 from RMB699.9 million in 2009, primarily due to costs associated with increased sales volumes. As a percentage of turnover, selling and distribution expenses were approximately 11.2% in 2010 compared to 11.4% in 2009.

General and administrative expenses. General and administrative expenses decreased approximately 30.2% to RMB153.3 million in 2010 from RMB219.6 million in 2009, primarily as a result of a decrease in expenses associated with our employee share option schemes as no share options were granted in 2010. As a percentage of turnover, general and administrative expenses were approximately 2.2% in 2010 compared to approximately 3.6% in 2009.

Research expenses. Research expenses decreased approximately 67.8% to RMB27.1 million in 2010 from RMB84.2 million in 2009, representing fewer R&D projects.

Other operating expenses. Other operating expenses increased approximately 13.0% to RMB248.0 million in 2010 from RMB219.4 million in 2009, primarily due to expenses incurred in relation to fallow production areas being accounted for as other operating expenses rather than cost of sales. Our production areas may be fallow either due to severe weather conditions, which render such areas unproductive for the season in question, or due to planned seasonal rotation of farmland. The expenses associated with fallow production areas generally increased as we increased our production area.

Finance costs. Finance costs decreased approximately 75.3% to RMB79.3 million in 2010 from RMB321.6 million in 2009 primarily due to the redemption or repurchase in 2009 of our convertible bonds issued in 2006 and the repayment in February 2010 of our guaranteed senior notes issued in 2005, which reduced our interest expenses on debt securities in 2010.

Share of net profits of associates. Our share of net profits of associates increased approximately 19.3% to RMB174.6 million in 2010 from RMB146.4 million in 2009, primarily due to an increase in profits of Asian Citrus Holdings Limited.

Profit before income tax. Profit before income tax decreased approximately 8.2% to RMB3,657.1 million in 2010 from RMB3,985.1 million in 2009.

Income tax expense. Income tax expense increased approximately 4.7% to RMB244,000 in 2010 from RMB233,000 in 2009. See "— Taxation" below.

Profit attributable to owners. Profit attributable to owners decreased approximately 8.2% to RMB3,658.1 million in 2010 from RMB3,986.4 million in 2009, as a result of the cumulative effect of the foregoing factors.

Year ended June 30, 2009 compared to year ended June 30, 2008

Turnover. Turnover increased approximately 21.7% to RMB6,126.8 million in 2009 from RMB5,032.6 million in 2008, primarily as a result of an increase of approximately 21.9% in turnover from sales of crops to RMB6,078.6 million in 2009 from RMB4,988.1 million in 2008. The increase in turnover from agricultural produce was principally due to increased sales volume from approximately 2.0 million tonnes in 2008 to approximately 2.5 million tonnes in 2009, which was primarily due to an increase in weighted average production area. The increase in sales volume was partially offset by a slight decrease in the average selling price from approximately RMB2.5 per kilogram in 2008 to approximately RMB2.4 per kilogram in 2009 for crops primarily due to a combination of factors, including decreased export sales as a percentage of sales due to the global economic slowdown, as well as less favorable general economic conditions.

Turnover from sales of livestock increased approximately 8.3% to RMB48.2 million in 2009 from RMB44.5 million in 2008, primarily due to increased sales volume.

Cost of sales and gross profit. Cost of sales increased approximately 28.5% to RMB1,976.2 million in 2009 from RMB1,538.4 million in 2008, and gross profit increased approximately 18.8% to RMB4,150.7 million in 2009 from RMB3,494.2 million in 2008. Gross profit margin decreased slightly to 67.7% in 2009 from 69.4% in 2008 primarily due to lower average selling price.

Other revenues. Other revenues decreased approximately 8.4% to RMB59.8 million in 2009 compared to RMB65.3 million in 2008, primarily due to a decline in interest income mainly as a result of decreases in bank balances, partially offset by increased revenues from sales of milk.

Changes in fair value of biological assets. Our gain arising from changes in fair value less estimated point-of-sale costs of biological assets decreased approximately 83.7% to RMB18.5 million in 2009 from RMB113.3 million in 2008.

Selling and distribution expenses. Selling and distribution expenses increased approximately 26.2% to RMB699.9 million in 2009 from RMB554.7 million in 2008, primarily due to costs associated with increased sales volumes and higher oil prices, which led to increased costs for transportation and petroleum-based packaging materials. As a percentage of turnover, selling and distribution expenses were approximately 11.4% in 2009 compared to 11.0% in 2008.

General and administrative expenses. General and administrative expenses increased approximately 4.4% to RMB219.6 million in 2009 from RMB210.4 million in 2008, primarily as a result of increased employee salaries. As a percentage of turnover, general and administrative expenses were approximately 3.6% in 2009 compared to 4.2% in 2008.

Research expenses. Research expenses increased approximately 47.2% to RMB84.2 million in 2009 from RMB57.2 million in 2008, representing an increase in the number of our ongoing R&D projects.

Other operating expenses. Other operating expenses increased approximately 50.2% to RMB219.4 million in 2009 from RMB146.1 million in 2008, primarily due to (i) expenses incurred in relation to fallow production areas being accounted for as other operating expenses rather than cost of sales; (ii) an increase in impairment losses on property, plant and equipment mainly relating to a food processing subsidiary; and (iii) an increase in natural crop losses. Our production areas may be fallow either due to severe weather conditions, which render such areas unproductive for the season in question, or due to planned seasonal rotation of farmland. The expenses associated with fallow production areas generally increased as we increased our production area. The natural crop losses were a result of particularly harsh weather conditions in northeastern China.

Finance costs. Finance costs in 2009 increased approximately 133.4% to RMB321.6 million in 2009 from RMB137.8 million in 2008, primarily due to increased interest expenses on the convertible bonds issued in May 2006 in connection with our early redemption of these convertible bonds in 2009.

Share of net profits of associates. Our share of net profits of associates increased approximately 11.0% to RMB146.4 million in 2009 from RMB131.9 million in 2008, primarily due to an increase in profits of Asian Citrus Holdings Limited.

Change in fair value of convertible bonds. The change in fair value of the convertible bonds we issued in May 2006 was nil in 2009 compared to a loss of RMB726.5 million in 2008, as the remainder of such convertible bonds had been redeemed or repurchased in the year ended June 30, 2009.

Gain on redemption of convertible bonds. Our gain on redemption of convertible bonds was RMB1,180.2 million in 2009 compared to nil in 2008, arising from the redemption and repurchase of all the outstanding convertible bonds issued in May 2006 in the year ended June 30, 2009.

Profit before income tax. Profit before income tax increased approximately 102.0% to RMB3,985.1 million in 2009 from RMB1,972.9 million in 2008.

Income tax expense. Income tax expense decreased approximately 98.9% to RMB0.2 million in 2009 from RMB20.7 million in 2008. The income tax expense in 2008 was primarily related to a one-time provision for withholding tax on dividends paid by our PRC subsidiaries to non-PRC subsidiaries.

Profit attributable to owners. Profit attributable to owners increased approximately 103.8% to RMB3,986.4 million in 2009 from RMB1,955.8 million in 2008, as a result of the cumulative effect of the foregoing factors.

Liquidity and Capital Resources

Our primary cash requirements are to fund capital expenditures and working capital requirements. Historically, we have funded our operations through operating cash flows and the proceeds derived from several major convertible debt, debt and equity transactions. Our major equity transactions include our initial public offering on The Stock Exchange of Hong Kong Limited on December 15, 2000, and subsequent equity offerings in November 2001, January 2004, February 2009, June 2009 and August 2010. Our major debt transactions include an issuance of guaranteed senior notes in February 2005 which have been repaid, an issuance of convertible bonds in May 2006 which have all been repurchased or redeemed, and the issuance of the 2010 Convertible Bonds. See "Description of Other Material Indebtedness — 2010 Convertible Bonds."

Our cash flows from operations are affected by agricultural commodity prices, demand for our products and the availability of raw materials. Our cash and cash equivalents as of June 30, 2008, 2009 and 2010 and as of December 31, 2010 were approximately RMB1,280.2 million, RMB3,106.7 million, RMB2,044.3 million and RMB3,885.6 million, respectively.

Our capital expenditures for the years ended June 30, 2008, 2009, 2010 and the six months ended December 31, 2010 were RMB2,806.8 million, RMB1,991.3 million, RMB3,629.4 million and RMB2,398.5 million, and primarily consisted of purchases of property, plant and equipment; payments of construction-in-progress; payments of deferred development costs; payments of prepaid premiums for land leases; and payments of deferred expenditures. The majority of these capital expenditures related to acquisition and preparation of productive areas for agricultural produce and livestock, construction of capital improvements such as greenhouses, acquisition of capital equipment, and expenditures related to efficiency improvements to reduce costs, equipment upgrades primarily due to changes in technology and business expansion. As of December 31, 2010, we had contractual commitments for capital expenditures of approximately RMB29.0 million and intend to continue our capital expenditures in connection with our expected expansion of production land area at an annual rate of 25% to 35% in the next three years. Our expansion plans are subject to adjustment in response to changing market conditions.

Cash flow

The following table presents selected cash flow data from our consolidated cash flow statements for the years ended June 30, 2008, 2009, 2010 and for the six months ended December 31, 2009 and 2010:

	Year ended June 30,			Six months ended December 31,	
	2008	**2009**	**2010**	**2009**	**2010**
	RMB	**RMB (in thousands)**	**RMB**	**RMB (in thousands)**	**RMB**
Net cash generated from operating activities					
Operating profit before working capital changes(1)	3,034,594	3,641,072	4,241,757	1,809,654	2,125,159
Net change in working capital(2)	(428,827)	(346,793)	(718,235)	35,875	(162,194)
Others(3)	(214,703)	(163,549)	(201,666)	(190,670)	(159,483)
Total	2,391,064	3,130,730	3,321,856	1,654,859	1,803,482
Net cash used in investing activities	(2,789,332)	(1,909,179)	(3,171,346)	(1,799,725)	(2,239,473)
Net cash generated from/(used in) financing activities	47,653	606,072	(1,212,072)	49,755	2,295,945
Net increase/(decrease) in cash and cash equivalents	(350,615)	1,827,623	(1,061,562)	(95,111)	1,859,954

(1) Represents profit from operations as adjusted for items such as finance costs, interest income, depreciation charges, amortization, loss on disposal of and impairment loss on property, plant and equipment, loss on disposals/deemed disposals of an associate, gain on deemed acquisition of additional interest in an associate, loss on disposal of available-for-sale investments, share of net profit of associates, gain arising from changes in fair value less estimated point-of-sale costs of biological assets, employee share options, change in fair value of and gain on redemption repurchase of convertible bonds and provision/write back of provision for impairment of trade receivables.

(2) Represents increases/(decreases) in inventories, biological assets, trade receivables, other receivables, deposits and prepayments, trade payables, other payables and accrued charges, amounts due to a related company and amounts due from an associate.

(3) Represents interest received, finance costs paid, dividends paid and income taxes paid.

Cash flows from operating activities

Six months ended December 31, 2010. We recorded net cash from operating activities of RMB1,803 million for the six months ended December 31, 2010. Our operating profit before working capital changes was RMB2,125.2 million. Our primary working capital changes were RMB162.2 million, primarily due to increased other receivables, deposits and prepayments, partially offset by a decrease in trade receivables. In addition, our dividends paid were RMB172.4 million.

Year ended June 30, 2010. We recorded net cash from operating activities of RMB3,321.9 million for the year ended June 30, 2010. Our operating profit before working capital changes was RMB4,241.8 million. Our primary working capital changes were an increase in biological assets of RMB686.6 million primarily due to increased production volume and purchases of eucalyptus trees in connection with our tree plantation operations, an increase in inventories of RMB20.4 million, comprising mainly agricultural produce for sale and agricultural materials such as seeds, fertilizers and pesticides and a decrease in amounts due to a related company of RMB8.9 million in connection with the purchases of organic fertilizers from Fujian Chaoda Trading, our affiliate controlled by Mr. Kwok Ho. In addition, our finance costs paid were RMB73.7 million, and our dividends paid were RMB133.7 million.

Year ended June 30, 2009. We recorded net cash from operating activities of RMB3,130.7 million for the year ended June 30, 2009. Our operating profit before working capital changes was RMB3,641.1 million. Our primary working capital changes were an increase in biological assets of RMB321.8 million primarily in connection with our tree plantation operations and an increase in trade receivables, other receivables, deposits and prepayments of RMB48.2 million. These changes were partially offset by an increase in amounts due to a related company of RMB14.2 million related to purchases of organic fertilizers from Fujian Chaoda Trading, our affiliate controlled by Mr. Kwok Ho. In addition, our finance costs paid were RMB123.0 million, and our dividends paid were RMB68.6 million.

Year ended June 30, 2008. We recorded net cash from operating activities of RMB2,391.1 million for the year ended June 30, 2008. Our operating profit before working capital changes was RMB3,034.6 million. Our primary working capital changes were an increase in biological assets of RMB439.0 million due to increased production volume and purchases of eucalyptus trees in connection with our tree plantation operations and an increase in trade receivables, other receivables, deposits and prepayments, partially offset by an increase in amounts due to a related company of RMB25.2 million related to purchases of organic fertilizers from Fujian Chaoda Trading, our affiliated controlled by Mr. Kwok Ho. In addition, our finance costs paid were RMB127.6 million, and our dividends paid were RMB125.7 million.

Cash flows from investing activities

Six months ended December 31, 2010. Net cash used in investing activities was RMB2,239.5 million for the six months ended December 31, 2010, primarily due to prepayments of RMB489.0 million to acquire new production land and RMB1,408.1 million for related infrastructure improvements, with the remainder for purchases of property, plant and equipment.

Year ended June 30, 2010. Net cash used in investing activities was RMB3,171.3 million for the year ended June 30, 2010, primarily due to payments for construction-in-progress of RMB2,376.0 million, payments of prepaid premium for land leases of RMB744.1 million and purchases of property, plant and equipment of RMB144.6 million. Such purchases and payments were partially offset by proceeds from partial disposals of an equity interest in our associate, Asian Citrus Holdings Limited.

Year ended June 30, 2009. Net cash used in investing activities was RMB1,909.2 million for the year ended June 30, 2009, primarily due to payments for construction-in-progress of RMB1,492.3 million, payments of prepaid premiums for land leases of RMB380.0 million and payments of deferred expenditures of RMB108.2 million, representing expenditures for land improvement and soil refurbishment. Payments for construction-in-progress increased in 2009 primarily due to the construction of farmland infrastructure.

Year ended June 30, 2008. Net cash used in investing activities was RMB2,789.3 million for the year ended June 30, 2008, primarily due to payments for construction-in-progress of RMB1,392.8 million and payments of prepaid premiums for land leases of RMB1,263.2 million. Payments for construction-in-progress increased in 2008 primarily due to the construction of farmland infrastructure.

Cash flows from financing activities

Six months ended December 31, 2010. We had net cash generated from financing activities of RMB2,295.9 million for the six months ended December 31, 2010, primarily due to the issuance of our 2010 Convertible Bonds, an equity placement and an issuance of call options in August 2010.

Year ended June 30, 2010. We had net cash used in financing activities of RMB1,212.1 million for the year ended June 30, 2010. The net cash used in financing activities in 2010 was primarily attributable to the repayment of guaranteed senior notes issued in February 2005.

Year ended June 30, 2009. We had net cash generated from financing activities of RMB606.1 million for the year ended June 30, 2009. The net cash generated from financing activities in 2009 was primarily due to proceeds of RMB1,924.4 million from an issuance of new shares, partially offset by an RMB1,370.4 million repurchase and redemption of convertible bonds.

Year ended June 30, 2008. We had net cash generated from financing activities of RMB47.7 million for the year ended June 30, 2008. The net cash generated from financing activities in 2008 resulted primarily from proceeds of RMB45.7 million from shares issued on the exercise of share options.

Indebtedness

As of December 31, 2010, we had loan facilities totalling RMB70 million. All loan facilities are secured by a corporate guarantee provided by our subsidiary Fuzhou Chaoda. As of the same date, we had no short-term bank loans. See "Description of Other Material Indebtedness."

On September 1, 2010, we issued an aggregate principal amount of US$200.0 million 3.7% secured guaranteed convertible bonds due 2015. As of March 31, 2011, US$200.0 million of the 2010 Convertible Bonds are outstanding. See "Description of Other Material Indebtedness — 2010 Convertible Bonds."

Future Capital Requirements

The following table presents as of December 31, 2010, the scheduled maturities of our contractual obligations for operating leases:

	Payments due by period			
Contractual Obligations	Total	Less than 1 year	After 1 year but within 5 years	More than 5 years
	RMB	RMB	RMB	RMB
		(in thousands)		
Operating lease obligations[(1)]	4,739,616	231,941	899,598	3,608,077

(1) *Represents leases for land.*

As of December 31, 2010, we had contracts to make R&D expenditures in an aggregate amount of approximately RMB25.9 million, for the purchase of property, plant and equipment in an aggregate amount of approximately RMB2.5 million and for payment for land leases in an aggregate amount of approximately RMB0.6 million. Some of these contracts are pursuant to arrangements that do not specify payment dates or which provide for our cancellation, but which are expected to be performed within the five years following the date hereof.

After taking into account our operating cash flows and bank borrowings, we believe we will have sufficient resources to meet our anticipated capital expenditure requirements for the next 12 months. In order to finance our continued expansion, we may in the future consider public offerings or private placements of equity, debt or convertible securities. However, we cannot assure you that we will be able to raise additional capital to meet our capital expenditure requirements on terms acceptable to us or at all. See "Risk Factors — Risks Relating to Our Business — We incur significant capital spending and may need to raise additional financing to support future development."

Taxation

According to the Notice on Clarifying Issues Regarding Collection and Exemption of Enterprise Income Tax of State-Level Agriculture Industrialization Dragon Head Leading Enterprises issued by the State Administration of Taxation (國家稅務總局關於明確農業產業化國家重點龍頭企業所得稅征免問題的通知) ("Circular 124"), a "State-Level Dragon Head Leading Agricultural Enterprise" is eligible for an enterprise income tax exemptions or reductions from income derived from agricultural businesses including growing and selling crops, breeding and selling livestock and the preliminary processing of agricultural and forestry products, provided that it complies with certain criteria and has been inspected and approved by the relevant local tax authority. These criteria include satisfying certain compliance requirements and having separate accounting records for such agricultural businesses. In addition, the majority-owned subsidiaries of a State-Level Dragon Head Leading Agricultural Enterprise are eligible for the same tax treatment provided that they also comply with the same criteria, and have been similarly inspected and approved by the relevant local tax authority.

Fuzhou Chaoda, our principal subsidiary and contributor to a substantial majority of our turnover, was designated as a "State-Level Dragon Head Leading Agricultural Enterprise" by the PRC government in December 2002. The status is subject to review every two years and Fuzhou Chaoda has passed such reviews and maintained such designation since December 2002. As outlined above, Fuzhou Chaoda's status as a "State-Level Dragon Head Leading Agricultural Enterprise" entitles Fuzhou Chaoda and its eligible subsidiaries engaged in agricultural business to be exempt from PRC enterprise income tax for all income derived from agricultural businesses, subject to the approval of the relevant local tax authorities. Fuzhou Chaoda's status as a "State-Level Dragon Head Leading Agricultural Enterprise" is next subject to review in June 2012. After January 1, 2008, as a result of the introduction of the New Tax Law, certain tax benefits also applied to other PRC subsidiaries engaged in agricultural business.

Under the New Tax Law, which became effective from January 1, 2008, enterprises that engage in qualifying agricultural business, which includes the growing and selling of crops, breeding and selling of livestock and the preliminary processing of agricultural and forestry products and cultivation of tea are eligible for certain tax benefits, including a full exemption from, or a 50% reduction in, enterprise income tax on income derived from such businesses, subject to approval by the relevant tax authority. See note 10 to the financial statements as of and for the years ended June 30, 2009 and 2010 and note 6 to our interim report as of and for the six months ended December 31, 2010 elsewhere in this document. Our PRC subsidiaries not engaged in agricultural businesses and income derived from non-agricultural activities of our PRC subsidiaries engaged in agricultural businesses were subject to PRC income tax at the rates of 15% to 33% for the six months ended December 31, 2007, and 25% thereafter following the introduction of the New Tax Law.

No provision for Hong Kong profits tax was made in the years ended June 30, 2008, 2009, 2010 or the six months ended December 31, 2010 as there was no estimated assessable profits for us and our subsidiaries operating in Hong Kong during these periods.

Deferred taxation is provided in full, using the liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values in the accounts. Deferred tax liabilities are provided in full for all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilized.

Under the New Tax Law, a 10% withholding tax is levied on a foreign investor in respect of dividend distributions received from a foreign investment enterprise's profit earned after January 1, 2008. Pursuant to the grandfathering treatments of the New Tax Law, dividends receivable by us from our PRC subsidiaries in respect of their undistributed retained earnings prior to December 31, 2007 are exempt from withholding tax. For each of our financial statements as of June 30, 2008, 2009 and 2010 and as of December 31, 2010, we recognized deferred tax liabilities of approximately RMB20.7 million in respect of the undistributed retained earnings of our PRC subsidiaries. The aggregate amount of temporary differences associated with the PRC subsidiaries' undistributed retained earnings for which deferred tax liabilities have not been recognized were RMB118.2 million, RMB431.1 million, RMB760.6 million and RMB924.9 million for the years ended June 30, 2008, 2009, 2010 and the six months ended December 31, 2010, respectively. No deferred tax liabilities have been recognized in respect of these differences because we are in a position to control the dividend policies of these PRC subsidiaries and we do not intend to reverse such differences in the foreseeable future.

Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We do not have any retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to such entity for such assets. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. We do not have any variable interests in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or R&D services with us.

Market Risks

Our operations are located in the PRC and are exposed to foreign currency exchange risk, interest rate risk and agricultural produce price fluctuation risk. We currently do not hedge against financial or market risks through the use of either derivatives or forward delivery contracts.

Foreign currency exchange risk

We are exposed to exchange rate risk. Our reporting currency is the Renminbi, and all of our turnover has been denominated in Renminbi. We also maintain bank balances in Hong Kong dollars and U.S. dollars. Recent changes in currency policy by the PBOC have resulted in the Renminbi appreciating against the U.S. dollar by approximately 26.7% from July 21, 2005 to April 15, 2011. The Renminbi exchange rate could fluctuate widely against the U.S. dollar or any other foreign currency in the future.

Since our income and profits are primarily denominated in Renminbi, any appreciation of Renminbi will increase the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Conversely, any depreciation of Renminbi will decrease the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. We currently do not hedge against our foreign exchange rate risk.

Our sales to export markets have historically been made to third-party export trading companies and settled in Renminbi. We may in the future engage in direct export sales, which may be settled in U.S. dollars and may mitigate foreign exchange risks associated with our liabilities denominated in U.S. dollars.

Interest rate risk

We are exposed to interest rate risk. As of June 30, 2008, 2009, 2010 and December 31, 2010, our bank borrowings amounted to nil, RMB24.0 million, RMB14.5 million and nil, respectively, for which interest was charged at fixed rates ranging from 5.10% to 5.58%. We currently do not have any borrowings which bear floating interest rates, but we may borrow floating interest rate loans in the future. Our interest rate risk primarily relates to the interest bearing bank balances. We currently have not used any interest rate swaps to hedge our exposure to interest rate risk but may enter into interest rate hedging instruments in the future to hedge any significant interest rate exposure should the need arise. Our management is of the opinion that the impact on our business due to the change in interest rates is and will remain insignificant.

Agricultural produce price fluctuation risk

We are exposed to price fluctuation risk for agricultural produce, which tends to occur on a seasonal basis in various geographic areas. There is not currently available in the PRC a commodity futures hedging market for managing this risk. See "Risk Factors — Risks Relating to Our Business — Our results of operations are subject to price volatility and seasonality."

Inflation and deflation risk

For the years ended December 31, 2008, 2009 and 2010, the inflation rate in China as measured by the consumer price index was 5.9%, -0.7% and 3.3%, respectively, according to the National Bureau of Statistics of China. We have not been materially and adversely affected by these inflationary pressures. However, if the consumer price index continues to rise and if we are not able to increase the prices of our products in China, our financial condition may be materially adversely affected. As of the date of this document, we had not been materially affected by any inflation or deflation.

The information in the section below has been derived, in part, from various public and private publications unless otherwise indicated. This information has not been independently verified by us or the [●]. The information may not be consistent with other information compiled within or outside China.

Overview of the PRC Agricultural Industry

General

The agricultural industry of the PRC has been growing rapidly over the past decade and continues to do so. In 2009, the gross domestic product of the PRC agricultural industry reached approximately RMB6,036 billion, representing a CAGR of 10.3% from 2000 to 2009. The primary driver for this growth has been the need to meet the increased demand from rising population and the increase in living standards which has accompanied an increase in per capita income. The table below sets out the growth in gross output value of the PRC agricultural industry from 2000 to 2009.

Gross output value of the agricultural industry in the PRC
(RMB in billions)

	Farming	Animal husbandry	Total agricultural industry[(1)]
2000	1,387	739	2,492
2001	1,446	796	2,618
2002	1,493	845	2,739
2003	1,487	954	2,969
2004	1,814	1,217	3,624
2005	1,961	1,331	3,945
2006	2,152	1,208	4,081
2007	2,466	1,612	4,889
2008	2,804	2,058	5,800
2009	3,061	1,947	6,036
CAGR (%)	9.2%	11.4%	10.3%

Sources: China Statistical Yearbook 2010

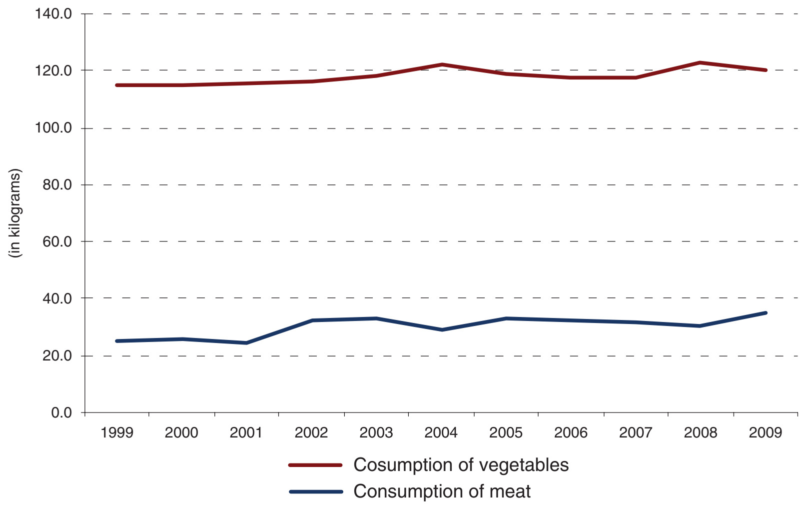
(1) Consists of farming, animal husbandry, fishery and forestry.

Production and consumption

China was the world's largest agricultural commodities producer by volume in 2009. According to data provided by the United Nations Food and Agriculture Organization, in 2009, China produced 484 million tonnes (approximately 19.4% of the world production volume) of grain (including rice, wheat, and coarse grains) compared to 420 million tonnes of grain produced by the United States. During the same period, China's vegetable and fruit production volume amounted to 574 million tonnes, accounting for 37.5% of the global volume, compared to 4.2% from the United States.

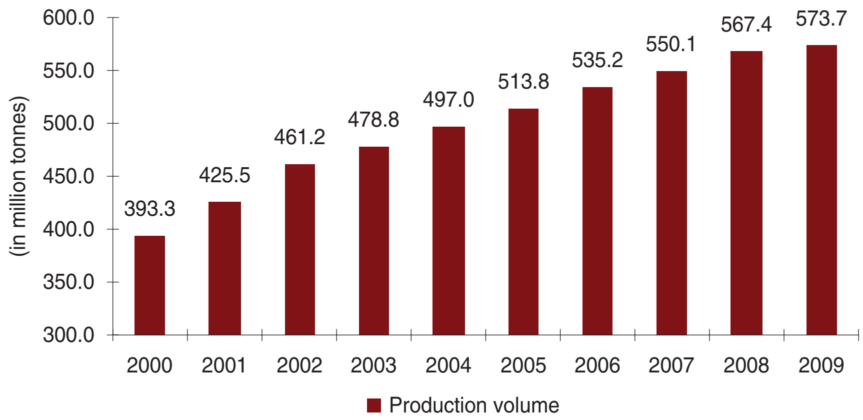
Vegetable and fruit production in China has continued to grow steadily. China's production volume in 2009 was 574 million tonnes, representing a 46.1% increase from 393 million tonnes in 2000, or a CAGR of 4.3%. Over the past two decades, Chinese farmers have consistently increased the planted area for fruit and vegetables and applied intensive farming practices, which include high fertilizer application rates for better yields and margins. The area harvested for vegetables and fruit has increased to 36.0 million hectares in 2009 from 26.4 million hectares in 2000, resulting in a CAGR of 3.5%. Meanwhile, the production yield of vegetables and fruit increased moderately from 26.1 tonnes per hectare in 2000 to 28.7 tonnes per hectare in 2009. The following charts set forth the production volumes of vegetables and fruit over the past ten years, and the area harvested and production yield for vegetables and fruit over the same period.

Per capita annual consumption of meat and vegetables for urban households



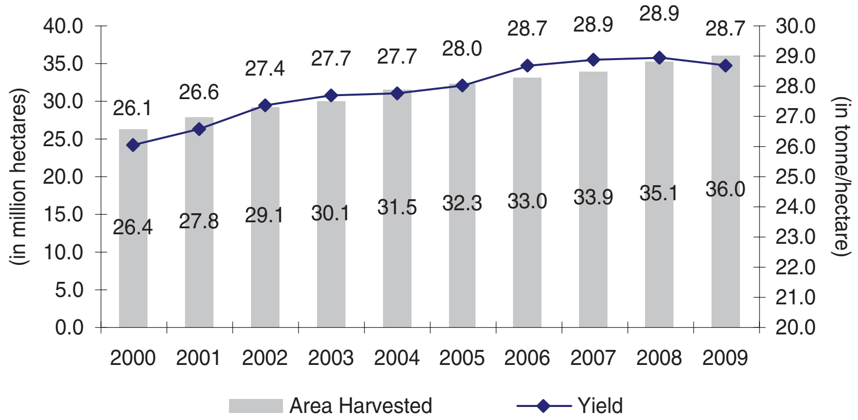
Source: China Statistical Yearbook

China's fruit and vegetables production



Source: Food and Agriculture Organization Statistical Database

Area harvested and production yield (fruit and vegetables)



Source: Food and Agriculture Organization Statistical Database

With a population of more than 1.33 billion at the end of 2009, China is the world's most populous country and accounts for around one-fifth of the world's population. As consumption per capita of basic foods remains relatively constant, the increase in population is expected to drive demand for agricultural produce and livestock in China. As per capita income rises and living standards improve, we have seen a shift in dietary patterns which results in a higher ratio of meat consumption. According to the National Bureau of Statistics of China, per capita consumption of meat among urban households increased by 39.2% from 24.9kg in 1999 to 34.7kg in 2009. This, in turn, has driven demand for grain used as animal feed. Vegetable consumption increased by 4.6%, from 114.9kg in 1999 to 120.5kg in 2009.

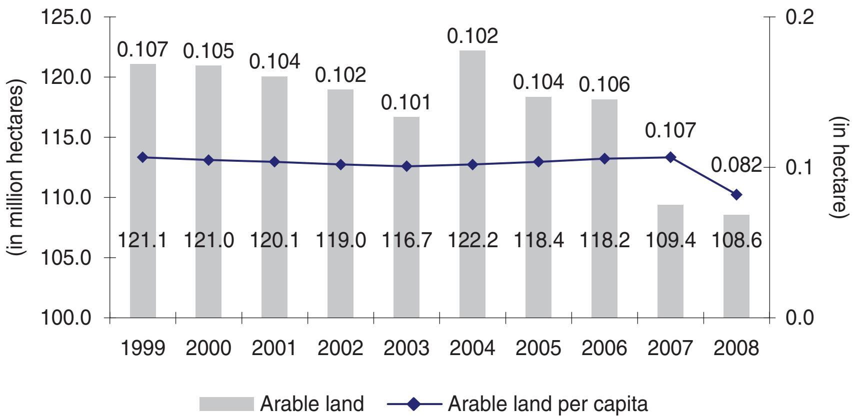
Key Features of the PRC Agriculture Industry

Despite its immense land area, China's agricultural industry has been hampered by a number of long-standing issues, including diminishing arable land, imbalanced fertilizer usage, limited water supply and inefficient use of its water supply, high fragmentation and inefficient distribution. Increased attention and investment from the PRC government for these issues is expected to foster stronger growth and development of the agriculture industry.

Diminishing arable land

Though China accounts for around 20% of the world's population, the country's total available arable land represents less than 8% of global supply according to the Food and Agriculture Organization Statistical Database. This disparity has been exacerbated over the past 20 years as the population has continued to grow while total arable land has shrunk from 121 million hectares in 1999 to 109 million hectares in 2008, according to Food and Agriculture Organization Statistical Database. As a result, per capita arable land dropped from 0.107 hectares to 0.082 hectares over the same period, representing a 23.4% decline. On a relative basis, China has 48% less per capita arable land than the global average and 81% less than that of the United States. In light of the reduction in the area of farmland per capita, the development of the PRC's agriculture industry has focused, and we expect that in the next few years it will continue to focus, on improving production yields and the value of agriculture output. The following chart set forth the total amount of arable land in China and the amount of arable land per capita from 1999 to 2008.

Arable land in China



Source: Food and Agriculture Organization Statistical Database

Imbalanced fertilizer usage

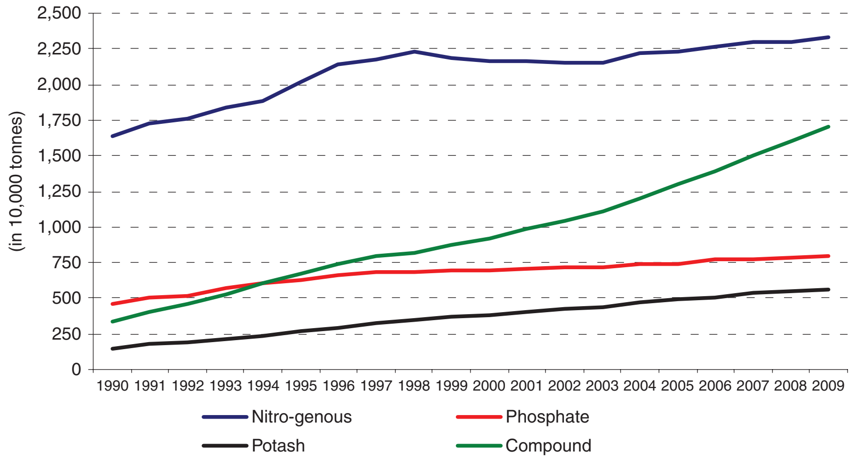
Chinese farmers have depended excessively on chemical fertilizers to maintain a food and grain supply. Between 1978 and 2009, the consumption of chemical fertilizers in China grew at a CAGR of 6.0%, and reached 0.9 tonnes per hectare of irrigated area in 2008 compared to 0.2 tonnes per hectare in 1978, according to the China Statistical Year Book.

Chinese farmers have tended to strongly prefer nitrogen over potash due to a number of factors, such as the convenient access to domestic nitrogen supplies, the scarcity of indigenous potash deposits and the distribution challenges for imported potash. The traditional practice among Chinese farmers is to employ potash and phosphate in alternate years, with nitrogen added every year. The difference between

China and the United States in the nutrient composition of fertilizers consumed serves as an indicator of the skewed fertilizer usage in China. According to the Food and Agriculture Organization Statistical Database, from 2002 to 2008, 208.9 million tonnes of nitrogen fertilizers were used in China, representing 63.2% of the country's total fertilizer consumption, while over the same period use of potash fertilizers was 38.7 million tonnes, representing only 11.7% of total consumption. Over the same period, 79.1 million tonnes of nitrogen fertilizers and 30.7 million tonnes of potash fertilizers were consumed in the United States, representing 57.4% and 22.3%, respectively, of the country's total fertilizer consumption.

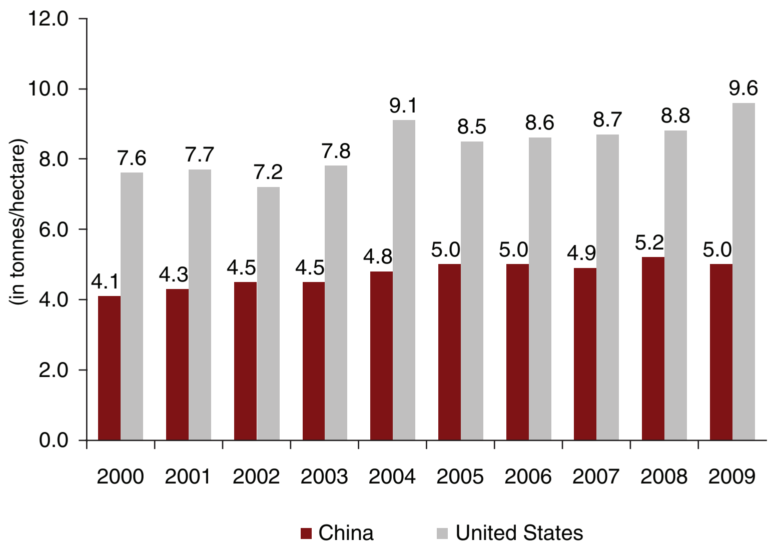
As a result, China's soil generally lacks residual nutrients, leading to soil degradation and reduced crop yields compared to developed countries. For example, over the period from 2005 to 2009, the average annual coarse grain yield in the United States was about 8.8 tonnes per hectare compared to 5.0 tonnes per hectare in China over the same period. For vegetables and melons over the same period, average yield in the United States reached 31.4 tonnes per hectare compared to China's 19.0 tonnes per hectare. The following charts set forth the growth in chemical fertilizer consumption in China from 1990 to 2009, a comparison of coarse grain yields in the United States and China and a comparison of vegetable and melon yields in the United States and China.

Chemical fertilizer consumption growth in China



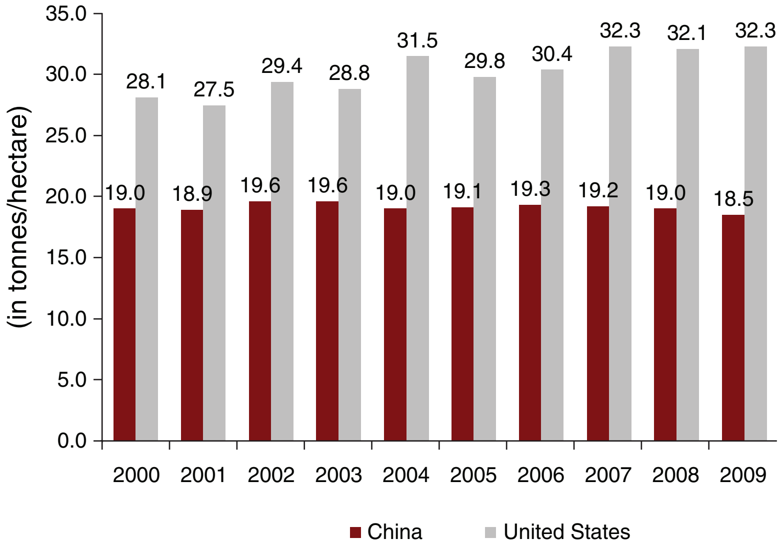
Source: China Statistical Yearbook 2010

Coarse grain yields, China vs. United States



Source: Food and Agriculture Organization Statistical Database

Vegetable and melon yields, China vs. United States



Source: Food and Agriculture Organization Statistical Database

Limited water supply and low water productivity

The decline in available water resources and uneven distribution pose challenges for the sustainable development of agriculture in China. According to a World Bank study of China's water crisis published in 2009, "*Addressing China's Water Scarcity*," China's renewable water resources amount to about 2,841km^3 per year, the sixth largest in the world, but per capita availability — estimated at 2,156m^3 per year in 2007 — is only one-fourth of the world average of 8,549m^3 per year and among the lowest for a major country.

Shortages are further aggravated by uneven distribution, both geographically and temporally. While southern China is replete with water with an average rainfall of over 2,000mm per year, scarcity prevails in northern China which receives only about 200 to 400mm per year, according to World Bank statistics. Per capita water availability in northern China is only 757m^3 per year, less than one-fourth that in southern China, one-eleventh of the world average and significantly less than the threshold level of 1,000m^3 per year commonly defined as "water scarcity." China is also subject to highly variable rainfall, leading to frequent droughts and floods, often simultaneously in different regions.

China's inefficient water allocation system has also led to the country's low water productivity. Water productivity in agriculture, which accounted for 65% of total water usage, is the lowest among all sectors, due to extensive waste in irrigation systems and suboptimal allocation among crops and between different parts of the same river basin. Only about 45% of water usage for agriculture is actually used by farmers on crops.

As such, agricultural producers in China intending to increase productivity will need to address water shortage issues by diversifying locations of production bases across northern and southern China and by selecting suitable produce for local conditions, as well as enhancing irrigation systems, among other approaches.

High fragmentation and inefficient distribution

The agricultural produce industry of the PRC is characterized by a high degree of fragmentation as well as low productivity and inefficient distribution. Most agricultural producers in the PRC are private farmers and collectives operating on a small scale and using traditional farming and cultivation techniques. Such producers frequently face problems such as insufficient funding and resources and lack of advanced technological knowledge and research support. Distribution is also inefficient as multiple intermediaries are involved before the produce reaches consumers. This not only incurs substantial waste but also results in significant price mark-ups for consumers. The following chart sets forth the typical distribution chain in the PRC agriculture industry.

Multi-layered and inefficient distribution chain

Government Policies to Support the Agriculture Industry

Given the importance of agriculture to the economy, the PRC government has placed high priority on the development of the agricultural industry. The growing number of food poisoning cases reported in recent years, which increased the general public's concern towards food safety and demand for quality food, also caught the government's attention. From 2004 to 2010, the central government has, at the beginning of each year, issued the "No. 1 Circular" (一號文件), which has focused on addressing issues in the agriculture sector with the objective of regaining growth momentum in the agricultural industry.

In October 2008, the 3rd Plenary Session of the 17th CPC Central Committee reiterated rural development as top priority over the next decade and set forth targets to be achieved by 2020, including:

- integration of the rural and urban economies;
- speeding up modernization in the sector;
- doubling rural per capita incomes;
- improving social infrastructure and social protection in line with urban areas; and
- developing an environmentally friendly and resource-efficient agricultural sector.

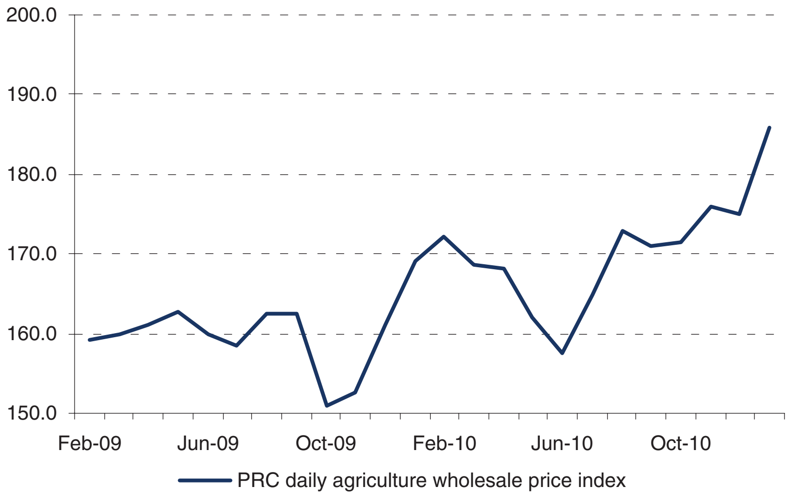
In October 2009, the National Key Vegetable Farming Regions Development Plan (2009–2015) (全國蔬菜重點區域發展規劃) was announced by the PRC government, and included the target of building eight key vegetable production regions in China by 2015.

In January 2010, the CPC Central Committee and the State Council announced its annual No. 1 Circular in respect of "Certain Opinions on the Coordination and Implementation of Rural Development" to address the "Three Rural Issues" (三農問題). The document focuses on allocation of resources to rural areas and encourages the development of quality agricultural produce, green food and organic agricultural produce. It also emphasizes improvement in laws, regulations and policies for land contract management in rural areas. Specific measures will be introduced to ensure that existing land contract management for rural areas remains stable indefinitely in the future. The annual No. 1 Circular issued in January 2011 highlighted water conservation for farmland as a key task in rural infrastructure development and announced the goal of increasing subsidies for irrigation systems in order to increase their efficiency and the total amount of irrigated farmland.

In addition, the government continues to increase its investment in agriculture. In 2009, the investment by the central government in solving the "Three Rural Issues" amounted to RMB725.3 billion, an increase of 21.8% as compared with 2008. Of this, RMB267.9 billion was invested in agricultural production and RMB127.5 billion was invested in direct subsidies to grain growers, general subsidies for purchasing agricultural supplies as well as subsidies for purchasing superior crop varieties and agricultural machinery and tools. In 2010, the government invested RMB858.0 billion, an increase of 18.3% over 2009, to support agricultural and rural development. Of this, RMB508.9 billion was allocated towards direct subsidies to grain growers, general subsidies for purchasing agricultural supplies, as well as subsidies for purchasing superior crop varieties and agricultural machinery and tools.

Since late 2010, Chinese domestic food prices have risen sharply due to factors such as increasing production input costs resulting from inflation, abnormal weather in major crop producing areas and the rise in global agricultural commodity prices. The following chart shows the daily agricultural wholesale price index from February 2009 to January 2011, which is a comprehensive index that consists of the wholesale price index of fruits, livestock, seafood, the grain and oil index and the vegetable basket index. The index increased by 16.8% during the same period.

PRC daily agricultural wholesale price index



Source: PRC Ministry of Agriculture

In response to increasing domestic food prices, on November 19, 2010, The State Council issued a notice on "Stabilization of the Overall Level of Consumer Prices to Protect the Basic Livelihood of the People" to control food prices by further developing the agricultural industry and ensuring a stable supply of agricultural products. Main points of the notice include:

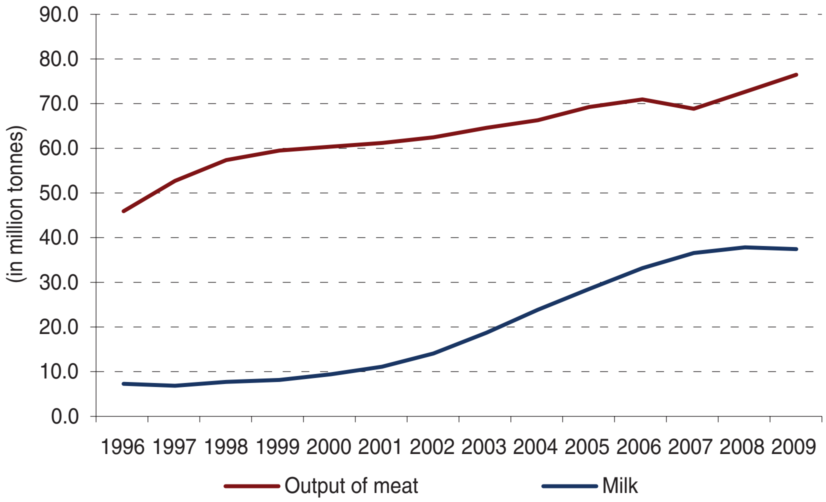
- a focus on the further development of agricultural industry by building vegetable farms and greenhouses with the support of central and local governments;
- stabilization of the supply of agricultural products through the efforts of regional governments to provide local grain reserves to the market;
- lowering the distribution cost of agricultural products by exempting vehicles transporting agricultural products from toll road fees;
- establishing a mechanism that links social welfare and insurance standards with price inflation; and
- subsidization of local governments when necessary for food subsidies given to low income households.

Livestock Breeding in the PRC

Livestock breeding is a key segment of China's agricultural market. Gross output of this segment reached RMB1.9 trillion in 2009, or 33.5% of the total gross output value of the agricultural sector. With continued improvements in living standards, there has been a notable increase in the quantity of meat and dairy consumption in the PRC. According to data from the United States Department of Agriculture, domestic livestock consumption in China reached 66.7 million tonnes in 2009, an increase of 14.0% over the 2004 level of 58.5 million tonnes. During the same period, retail sales of milk (including fresh/ pasteurized milk, and long-life milk) rose to 7,668.0 million liters, representing a 71.7% increase over the 2004 level of 4,467.2 million liters, according to Euromonitor International. Output of meat and milk also increased significantly. According to the China Statistical Yearbook, from 2004 to 2009, output of meat and milk grew by a CAGR of 3.0% and 9.5%, respectively. As such, there has been a steady expansion of the livestock breeding and dairy industries in the PRC.

Although the PRC currently has a large number of livestock, the quality of livestock output including meat and dairy as well as the production yield of such livestock have generally remained low compared to livestock raised in developed countries. In addition, the sector has often suffered from outbreaks of animal epidemics. The CPC Central Committee and the State Council, in the 2007 No. 1 Circular, urged that more money be spent on subsidizing the breeding of quality dairy cattle and on the prevention and control of animal epidemics. The following chart sets forth China's output of meat and dairy products from 1996 to 2009.

China's output of meat and dairy products



Source: China Statistical Yearbook 2010

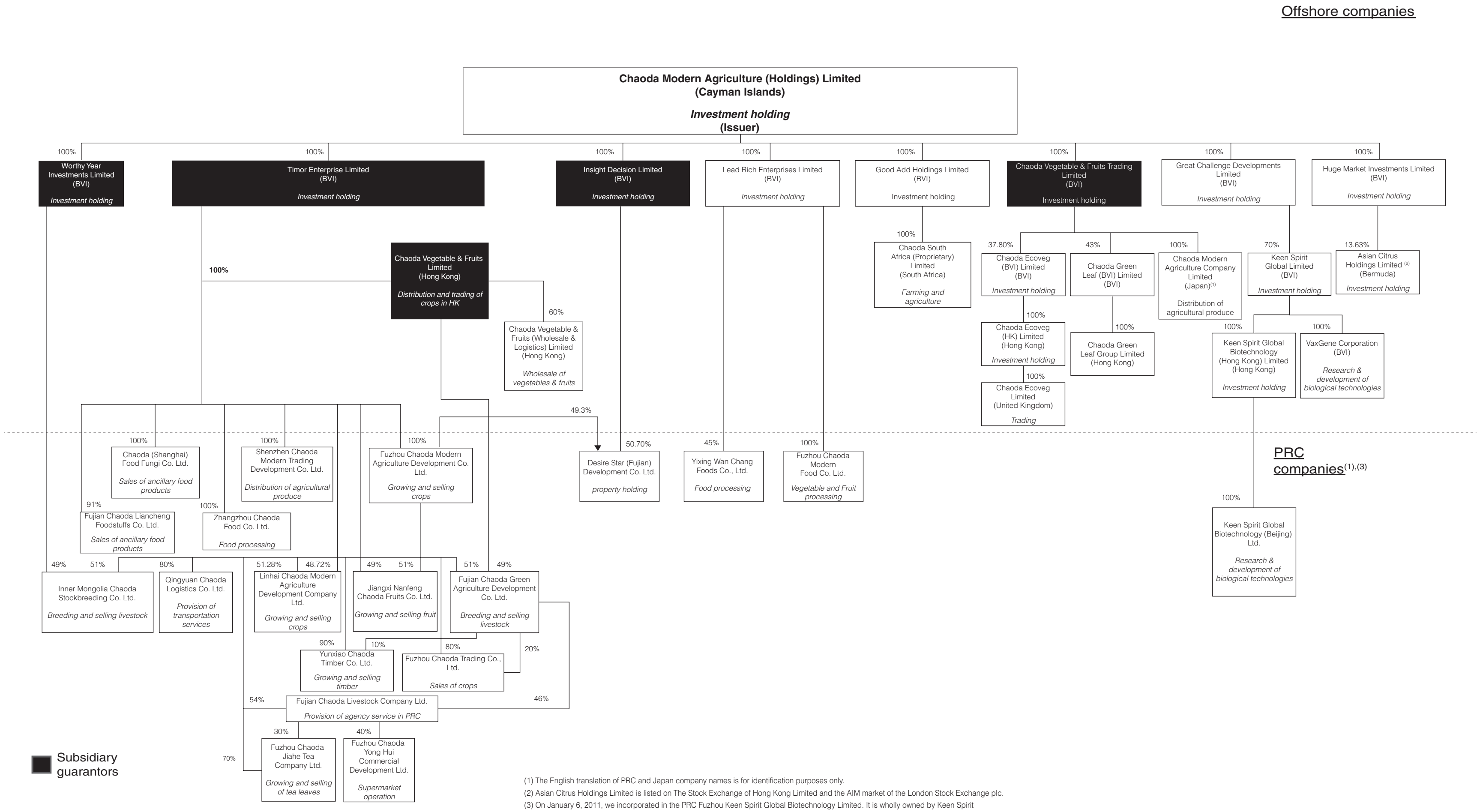
The PRC's Green Food Industry

In November 1992, the Ministry of Agriculture of the PRC established the China Green Food Development Center ("CGFDC") for promoting the production and development of pollution-free, safe, quality and nutritious food in the PRC. The term "green food" in the PRC refers to quality, nutritious and pollution-free food products, the production of which does not involve the use of harmful chemical fertilizers, pesticides and chemical compounds or involves only limited use of specific chemical compounds during their production or processing. Green food is further divided into "AA" grade (produced without chemical fertilizers or chemical pesticides and free of any harmful substances) and "A" grade (low levels of certain specific types of chemical fertilizers or substances are permitted in production). In recent years, there has been increasing awareness among consumers in the PRC of the benefits of organic and green food, particularly in major cities such as Beijing and Shanghai where consumers generally have more disposable income and there is a stronger awareness of the health benefits of organic and green food.

In February 2011, the CGFDC announced its targets for the year which include establishing 50 standardized production bases for green food in addition to the existing 479 bases, further regulation of certification of green food products, maintenance of product quality and further development of the green food industry in connection with the government's work on the Three Rural Issues.

CORPORATE STRUCTURE

The following chart sets forth our corporate structure as of December 31, 2010:



(1) The English translation of PRC and Japan company names is for identification purposes only.
(2) Asian Citrus Holdings Limited is listed on The Stock Exchange of Hong Kong Limited and the AIM market of the London Stock Exchange plc.
(3) On January 6, 2011, we incorporated in the PRC Fuzhou Keen Spirit Global Biotechnology Limited. It is wholly owned by Keen Spirit Global Biotechnology (Hong Kong) Limited and has a registered capital of HK$ 120.0 million as of the date of this document. Fuzhou Keen Spirit Global Biotechnology Limited is an Unrestricted Subsidiary under the Indenture governing the Notes.

Overview

We are a leading producer of agricultural produce in China. We grow crops, principally vegetables and fruit, in our strategically located production bases across China. We operate an industrialized farming business model, extending from cultivation to the distribution and marketing of agricultural produce. We employ standardized production processes and a centralized management structure, and through our large-scale farming operations and extensive distribution network, we supply quality agricultural produce to a diversified customer base in the domestic market and in international markets.

As one of China's leading agricultural companies, we have and will continue to focus on our core business of cultivation and distribution of agricultural produce since we commenced operations in 1997. We cultivate quality agricultural produce from our own production bases on farmland consisting of vegetable lands, fruit gardens and tea gardens. We obtain land-use rights to our farmland through long-term leases, typically for periods of between 20 to 25 years for vegetable land, and 30 to 70 years for other farmland. Over the years, we have steadily expanded our production bases in strategic locations across China, covering different latitudes and elevations, from the eastern and the coastal regions to southern China and central China. As of December 31, 2010, we operated a total of 30 production bases covering 13 provinces and municipalities in the PRC, with a total cultivated agricultural land area of approximately 714,933 mu (approximately 47,662 hectares). In addition, as of the same date, we had entered into long-term leases for approximately 300,000 mu of land held as land reserves which we plan to convert into operating production bases in the next few years to support our growth. In addition to our core business of cultivation and distribution of agricultural produce, we also engage in the breeding and sale of livestock, principally goats and dairy cattle, and the operation of tree plantations for sale.

Our industrialized farming business model involves the consolidation of fragmented farmland from local farmers in China. By achieving economies of scale, we are able to supply a large and stable supply of agricultural produce on a nationwide basis. This in turn allows us to bypass intermediaries and directly supply our produce to the major vegetable wholesale markets in China and have access to multiple distribution channels including domestic wholesalers, institutional customers and export customers. For the six months ended December 31, 2010, sales to domestic wholesale customers, institutional customers and export customers constituted approximately 69.1%, 5.1% and 25.8% of our total agricultural produce, respectively.

In 2008, we were selected by the Beijing Olympic Games Committee as a key vegetable supplier to the 2008 Beijing Olympic Games. We believe we were chosen because of our large production scale as well as our high quality control and safety standards. The PRC State Council and the Beijing Olympic Games Committee jointly awarded Fuzhou Chaoda, our principal subsidiary supplying vegetables to the 2008 Beijing Olympic Games, a Certificate of Honor. Fuzhou Chaoda is also a member of the IFOAM, a leading international non-governmental organization in the food produce industry which formulates organic food standards.

Our turnover for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010 was RMB5,032.6 million, RMB6,126.8 million, RMB6,963.7 million and RMB3,835.3 million, respectively. For the same periods, our profit attributable to owners of the Company was RMB1,955.8 million, RMB3,986.4 million, RMB3,658.9 million and RMB1,546.8 million, respectively. Sales volume of our agricultural produce for the same periods was approximately 2.0 million tonnes, 2.5 million tonnes, 2.8 million tonnes and 1.4 million tonnes, respectively. Our net assets as of June 30, 2008, 2009 and 2010 and December 31, 2010 amounted to RMB11,117.2 million, RMB16,757.3 million, RMB21,508.5 million and RMB24,873.1 million, respectively.

Competitive Strengths

A leading producer of agricultural produce in the PRC with strong industry brand recognition

We are a leading producer of agricultural produce in China with large-scale production bases at geographically diversified locations. As of December 31, 2010, we operated a total cultivated agricultural land area of approximately 714,933 mu (approximately 47,662 hectares), and held approximately 300,000 mu of land as land reserves which we plan to convert into operating production bases. Sales of our agricultural produce totaled approximately 2.0 million tonnes, 2.5 million tonnes, 2.8 million tonnes and 1.4 million tonnes for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, respectively. As a result of our large-scale operations and modern agricultural production methods, we are able to achieve economies of scale in our cultivation and production of agricultural produce. We achieved an average yield per mu of approximately 2.45 tonnes of vegetables for the six months ended December 31, 2010.

Our success is well recognized in the PRC agricultural industry. The "Chaoda" brand was recognized by the World Brand Laboratory as one of China's 500 Most Valuable Brands for seven consecutive years since 2004 and one of the most valuable brands in China's agricultural industry. We were included among "China's Top 500 Companies" in the Chinese edition of *Fortune* magazine in July 2010, ranking fourth among agricultural companies. In 2008, Forbes recognized us as one of "China's Top 100 Companies," and in 2009, included us among its "200 Best Under a Billion" list in the Asia Pacific region. We were also selected as a key vegetable supplier to the 2008 Beijing Olympic Games. In recognition of this contribution, Fuzhou Chaoda was awarded a Certificate of Honor jointly by the PRC State Council and the Beijing Olympic Games Committee. We believe that such industry recognition and leading market position form a solid foundation for our sustainable development and growth, thereby enhancing our ability to secure land-use rights for our production bases as well as to better market our products.

Geographically diversified production bases supported by a comprehensive distribution network

Our production bases are strategically located in selected areas in the PRC to take advantage of the diverse climatic conditions, fertile and unpolluted soil and stable water supplies, as well as relative proximity to major cities. The locations of our production bases are critical to our productivity, the quality of our agricultural produce and our costs of distribution. We are able to exploit different climatic conditions because of the wide geographical distribution of our production bases across different regions of the PRC and at different latitudes and elevations. This allows us to cultivate and provide a stable supply of an extensive range of agricultural produce throughout the year and reduces our exposure to the impact of natural disasters and adverse weather conditions. Our use of modern technology and ecological farming methods also reduce our susceptibility to climatic conditions and enhance our ability to withstand natural disasters and adverse weather conditions.

We have established a comprehensive distribution network to maximize the benefits of our geographically diversified production bases. Our multiple distribution channels in the domestic market cover over 60 major vegetable wholesale markets, and we make direct sales to institutional customers such as hotels, large chain stores, hospitals, schools, government and non-government entities. We also sell our produce overseas through cooperation with an extensive network of export trading companies. All our sales are centrally supervised and managed by our headquarters with the assistance of our branch offices located in close proximity to the vegetable wholesale markets across China. These branch offices not only coordinate with wholesalers and our production bases in their designated areas to facilitate sales settlement and delivery, but also provide timely market data to our headquarters to allow it to effectively manage sales and optimize pricing. We believe that our multiple distribution channels enable us to bypass several layers of intermediaries in the distribution process and to capture a portion of the price appreciation in the supply chain.

Industrialized farming business model that can be replicated for future expansion

We believe we are one of the first vegetable growers in China to adopt an industrialized farming business model featuring standardized production processes and a centralized management structure. We believe our industrialized farming business model provides us with a "first-mover" advantage in the highly fragmented PRC agricultural industry and allows us to increase economies of scale and operating efficiency and achieve sustainable growth.

We employ standardized processes at all critical steps in our cultivation and production at all of our production bases, including seed selection, use of organic fertilizers, use of non-toxic biological pesticide, planting process, technical guidance and supervision and inspection and classification of produce before delivery. We also have standardized infrastructure, such as irrigation and drainage canals, greenhouse sheds and ground sheets to help optimize the quality and yield of our agricultural produce. We believe that not all our competitors, especially smaller crop producers with fewer resources, are capable of standardizing these processes and infrastructure. Our ability to replicate our industrialized farming business model with such standardized mechanisms has contributed to and will continue to drive our sustained growth.

Functions such as business development, production planning, procurement, distribution and R&D are coordinated at our headquarters in Fuzhou, Fujian Province, PRC, with the assistance of our management information systems, which collect past and prevailing climate, market and production information. Centralized management of such key functions enables us to plan our cultivation and sales activities in advance to effectively respond to market demand and helps us to optimize pricing and better monitor product quality. We adopt a price monitoring system in the trade center located at our headquarters, which monitors the demand for, and the prices of, agricultural produce in over 60 major vegetable wholesale markets across 15 provinces in the PRC. The price monitoring system enables us to manage our cultivation plans in an efficient manner, allocate resources and production in order to benefit from price differentials in different regions of the PRC and respond promptly to market and seasonal changes.

Stable cost base with long-term supply of key organic fertilizer and fixed land rental throughout lease term

We have long-term and stable supply arrangements with supplier of organic fertilizer, a principal raw material for our production. In particular, since 2000, we have been purchasing organic fertilizers, principal raw materials for our agriculture production, from Fujian Chaoda Trading, a company owned by our Chairman. We typically renew our supply agreement with Fujian Chaoda Trading every three years. See "Related Party Transactions." Our long-term relationship with our organic fertilizer supplier provides a stable and continued supply of organic fertilizer to meet our production needs. It also helps us to maintain the consistency of organic fertilizer used in our production bases across the PRC, which in turn allows us to better control product quality.

We also enter into long-term farmland leasing arrangements typically for a term of between 20 to 25 years for vegetable land, and 30 to 70 for other farmland. The lease rental for vegetable land is typically structured as a combination of an upfront prepayment with fixed annual rent payments throughout the lease term while for other farmland, we pay the rental for the whole term at the beginning of the lease term in several payments. Such pre-determined land lease helps to ensure the reliability and predictability of our land cost.

We believe that our long-term supply of key raw materials and stable land cost have enabled us to maintain a relatively stable cost base and helps us to better manage our financial performance.

Experienced management team

Our management team comprises individuals with extensive experience in production planning, cultivation, sales and marketing of agricultural produce, as well as financial planning and agricultural-related R&D. We have been able to recruit and train employees from leading Chinese agricultural universities, including China Agricultural University (中國農業大學), Fujian Agriculture and Forestry University (福建農林大學) and Nanjing Agricultural University (南京農業大學), despite the fact that such employees are generally in short supply in China's competitive agricultural industry. In addition, most of the skilled employees at our production bases have extensive experience in the cultivation of specific types of agricultural produce and are familiar with local soil and weather conditions. We also provide professional training and supervision to our employees. We believe our ability to attract and retain skilled and experienced employees and our provision of professional training and supervision help us to maintain a dedicated team of qualified employees and allow us to achieve sustainable business growth.

Industry dynamics that are less affected by economic downturns and enjoy supportive government policies

We believe the agricultural industry is less affected by regional or global macroeconomic events. Our agricultural produce such as vegetables and fruit are staple items consumed irrespective of prevailing economic conditions. Therefore, we believe the agricultural industry is relatively insulated from the effect of recessions and economic slowdowns and has shown stable growth even during such periods. According to the National Bureau of Statistics of China and CEIC Data, between 2000 and 2009, the total gross output value of the PRC agricultural industry increased for nine consecutive years at a CAGR of 10.3% to RMB6,036 billion. According to the United Nations Food and Agriculture Organization's statistics, between 1999 and 2009, vegetable and fruit production in the PRC increased at a CAGR of 4.3% to RMB574 million tonnes, despite the effects of global financial crises and economic downturns.

We also benefit from supportive government policies and measures, such as those presented jointly by the Central Committee of the Communist Party of China and the State Council in their annual publication dubbed the "No. 1 Circular" for six consecutive years from 2004 to 2010. These government policies and measures address the "Three Rural Issues Related to the Agricultural Industry, Rural Areas and Farmers," or "Three Rural Issues," aiming to promote the restructuring of the agricultural industry in the PRC, increase economies of scale in agricultural production and improve the living standards and income of farmers. We believe that our industrialized farming business model promotes the government's agricultural initiatives by benefiting local economies and farmers as well as the environment and as a result, we have received various forms of recognition from the central and local governments in the PRC. For example, since 2002, Fuzhou Chaoda, one of our principal subsidiaries in the PRC, has been designated as a "State-Level Dragon Head Leading Agricultural Enterprise" by the PRC government.

Business Strategies

Our primary objective is to further strengthen our market leadership through expanding our business and increasing our market share. We intend to achieve our goals by pursuing the following key strategies:

Continue to expand and improve production bases to increase market share

We plan to support our growth and further consolidate our cultivation business by strategically expanding our existing production bases as well as acquiring new production bases in China. We believe that the expansion of our production bases will allow us to achieve greater economies of scale through shared management and human resources. We intend to continue to work with local governments and rural collective organizations in identifying suitable land acquisition opportunities. We believe we can leverage upon supportive government policies in relation to the agricultural industry to further expand our production bases, as our operations help promote local employment and the development of local economies. In connection with our land acquisitions for production bases in new geographical areas, our Production Base Department typically performs detailed feasibility studies and considers a number of factors including local soil, geographical, environmental and climatic conditions, access to market and transportation facilities and the availability of unpolluted water. We believe that by maintaining a productive and geographically-diversified production base portfolio, we will be able to strengthen our presence in existing markets as well as expand into new regions in China.

In tandem with the expansion of our production bases, we aim to continually install and upgrade our production base infrastructure, including irrigation systems, drainage ditches and canals, greenhouses, crop shelters and machinery. We believe that advanced infrastructure improves productivity and reduces the impact of natural disasters such as floods and droughts.

Continue to emphasize quality control to maintain high product quality

We believe that improving the quality and safety of our agricultural produce is paramount to our future success. To achieve this, we are creating a management system using standardized production and quality control. More generally, we will continue to focus on quality control throughout our sourcing, production and distribution processes and carry out R&D activities to enhance the appearance and taste of our agricultural produce, develop more efficient cultivation methods and improve preservation of freshness of the produce during transportation. We will also cooperate with leading agricultural universities and research institutions in areas such as employee training, technology co-development and facility sharing. In addition, we intend to leverage our close cooperative relationships with leading Chinese agricultural institutes to attract qualified and experienced personnel to further enhance our R&D capabilities and support future growth.

We also plan to continue to implement our centralized management business model for the procurement of seeds, organic fertilizers, pesticides and other key raw materials, as well as standardize cultivation procedures in order to maintain consistency of product quality and ensure product safety.

Continue to enhance brand recognition

One of our long-term commitments is to enhance our brand recognition. Over the years, we have received recognitions from government authorities and industry participants. For example, Fuzhou Chaoda has been designated as a "State-Level Dragon Head Leading Agricultural Enterprise" by the PRC government since 2002. We are committed to making "Chaoda" a widely recognized industry brand name and to further strengthen our "safe, healthy and green" brand image by cultivating and supplying quality agricultural produce to customers as well as promoting brand sales. We believe that our association with the 2008 Beijing Olympic Games as a key supplier of vegetables has created great prestige for our brand which will help us to further expand our customer base. We also believe that stronger brand recognition will facilitate our acquisition of additional land for production base expansion and capture additional export opportunities.

Strengthen management through targeted recruiting and systematic training

To support our continuous growth and business development, we aim to continually strengthen our management team, particularly mid-level managerial personnel, through targeted recruiting efforts at leading Chinese agricultural universities and by providing our staff with systematic training and supervision. Our centralized control of product mix, cultivation methods and procurement requires a skilled cadre of mid-level management who are responsible for oversight of existing production bases and development of new production bases. We have an internal training system, which includes rotational and management trainee programs, which we believe help ensure uniform best practices in cultivation at our production bases to provide both production efficiency and quality produce.

Agricultural Produce Business

We are primarily engaged in the cultivation of quality agricultural produce in the PRC. We sell our agricultural produce mainly to wholesale markets and institutional customers in the PRC, as well as overseas markets through third-party export trading companies. We currently cultivate and sell two main categories of quality agricultural produce, namely vegetables and fruit. As of December 31, 2010, we produced more than 150 types of crop species commercially, comprising principally:

- *vegetables*: white cabbage/pak choy, baby white cabbage/baby pak choy, Shanghai cabbage, Chinese flowering cabbage/choy sum, broccoli, garlic bolt, chili pepper, turnip, bell pepper, water spinach/tung choy, potato, bitter melon, spinach, celery, lettuce, cucumber, long bean, carrot, eggplant, spring onion, Chinese kale/gai lan, onion, Italian lettuce, taro, winter melon, green bean, hairy bean, sweet pimento, pea pod, hairy melon, leek, Chinese celery, sweet corn, pumpkin, tomato, cauliflower, snow peas, okra, broad bean, green bean, sword bean, asparagus lettuce, loofah, lotus root, water bamboo, ginger, asparagus and calabash.

- *fruit*: watermelon, mandarin orange, honey pomelo, melon and loquat.

- *rice*: white, brown, black and Thai rice, as part of our crop rotation to maintain soil fertility.

In addition to our agricultural produce business, as of December 31, 2010, we hold an approximately 13.63% equity interest in Asian Citrus Holdings Limited, a company listed on the Hong Kong Stock Exchange and the Alternative Investment Market of the London Stock Exchange, which operates modern, mechanized and industrialized orange farms in the PRC.

Turnover from our agricultural produce business accounted for approximately 99.1%, 99.2%, 99.1% and 99.3% of our total turnover for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, respectively.

Our cultivation methods and processes in the production of our agricultural produce are developed in accordance with the green food production standards prescribed by the China Green Food Development Center ("CGFDC") or the organic food production standards prescribed by the China Organic Food Development Centre ("OFDC"). We use organic fertilizers and limited amount of chemical pesticides in the cultivation of our agricultural produce. Adherence to strict quality control enables us to produce quality, nutritious, unpolluted and healthy agricultural produce.

We undertake R&D activities to improve seed and produce quality. We have also successfully introduced and acclimated various species of agricultural produce imported from overseas for cultivation at our production bases in the PRC.

We are subject to various laws, rules and regulations governing the production and sale of food, food hygiene and food safety promulgated by the PRC government and other overseas countries where our agricultural produce are sold. We believe that we have in general complied with applicable food and food hygiene and safety laws, rules and regulations of all relevant countries in all material respects since the establishment of our agricultural produce business.

Production Bases

The following map shows the 13 provinces and municipalities at which our production bases are located as of December 31, 2010.

Locations of production bases

As of December 31, 2010, we operated a total of 30 production bases covering 13 provinces and municipalities in the PRC, including the provinces of Fujian, Jiangsu, Jilin, Shaanxi, Hebei, Hubei, Hunan, Shandong, Guangdong, Zhejiang, Jiangxi, and the municipalities of Beijing and Tianjin, with a total cultivated agricultural land area (excluding mountain area) of approximately 714,933 mu (approximately 47,662 hectares). As of December 31, 2010, approximately 76% of our total cultivated agricultural land area was used for the cultivation of vegetables, and approximately 24% of our total cultivated agricultural land area was used for the cultivation of fruit or tea. Our production bases are strategically located in different parts of the PRC and different areas within the same province or municipality in order to mitigate the impact of natural disasters or adverse weather conditions such as droughts, floods, hailstorms, snowstorms, typhoons and earthquakes in any one particular geographical region. In addition, the diverse geographical locations of our production bases also enable us to distribute our produce efficiently to different parts of the PRC.

The following table shows the location and breakdown by area of our production bases as of December 31, 2010:

Location	Area (mu)	Area (ha)	Type[(2)]
Fujian	80,850	5,390	Crops
Jiangsu	117,170	7,812	Crops
Jilin	80,000	5,333	Crops
Shaanxi	58,500	3,900	Crops
Hebei	63,500	4,233	Crops
Hubei	63,000	4,200	Crops
Hunan	35,000	2,333	Crops
Beijing/Tianjin	26,000	1,733	Crops
Others[(1)]	20,500	1,367	Crops
Sub-total	**544,520**	**36,301**	**76%**
Jiangxi	98,750	6,583	Fruit
Fujian	53,753	3,584	Fruit
Sub-total	**152,503**	**10,167**	**21%**
Fujian	17,910	1,194	Tea
Sub-total	**17,910**	**1,194**	**3%**
TOTAL	**714,933**	**47,662**	**100%**

(1) Includes the provinces of Shandong, Guangdong and Zhejiang.

(2) Rice is periodically grown on some of our vegetable land as part of a crop rotation cycle.

Selection of production bases

Selection of the location for our production bases is critical to the success of our business. We apply strict criteria and consider various attributes of a location, including its climatic, geographical and environmental conditions, soil quality, access to markets and transportation network and the availability of unpolluted water before we make our selection. We then compile and analyze relevant historical data to make a comprehensive evaluation of the locations. In particular, we consider the following criteria to be fundamental to our production bases:

- fertile and unpolluted soil;
- favorable environmental conditions, in particular, unpolluted air and abundant unpolluted water supply;
- natural protection from surroundings in order to minimize the risks and effects of natural disasters and adverse weather conditions, such as floods, hailstorms and windstorms;
- favorable climatic conditions that allow a long growing season for a wide range of agricultural produce; and
- convenient access to a transportation network that allows efficient delivery of raw materials and collection and sale of agricultural produce.

Leasing of land

Our production bases are located predominately on land leased from independent third parties, which include townships, rural collective organizations and other legal entities. The terms of the land leases in respect of our production bases typically range from 20 to 30 years for vegetable land, and 30 to 70 years for fruit and tea gardens, livestock grasslands and others. The majority of these land leases provide us with a right of first refusal if the landlord wishes to continue to grant the land lease following expiration of the contract term. In addition, these land leases generally provide that the land involved should be suitable for our farming purposes, which is determined every five years through an environmental assessment conducted by an independent evaluation firm. We typically have the right to terminate the land lease and return farmland that is or becomes unsuitable for farming as determined by the environmental assessments, or due to droughts and flooding, in which case we can terminate the land lease at any time during the term of lease. The local government also has the right to request for the return of the farmland for social public benefit reasons. In the event that the land is not suitable for farming or has to be returned due to natural disasters or government order, we will generally be entitled to a refund of a portion of the upfront payment of any prepaid land premium with respect to vegetable land and the portion of the upfront lump sum payment representing rental payment for the remaining term of the lease with respect to fruit and tea gardens and livestock grasslands.

Typically, land costs for vegetable land include a prepaid land premium which is amortized through the lease term and an annual rent payment, which for most of our production bases is fixed throughout the entire duration of the lease. Land costs for fruit and tea gardens and livestock grasslands typically include an upfront payments representing rent payment for the entire duration of the lease. Historically, approximately 10% of our cost of sales has been attributable to land rental costs. The prepaid land premium for vegetable land is generally around RMB3,000 per mu while the annual rent generally ranges from approximately RMB200 to RMB800 per mu. For fruit and tea gardens and livestock grasslands, the annual rent for calculating the upfront lump sum payment is generally negotiated in advance.

Infrastructure

Our production bases are equipped with infrastructure designed to facilitate our farming operations. We determine the kind of infrastructure to build with reference to our planned crop production and factors such as soil type and quality, climatic and other geographical conditions. Infrastructure for our production bases typically include irrigation and drainage systems, roads, greenhouses, shelters, ground sheets, cold storage and processing facilities for the cleaning, sorting and packaging of our agricultural produce. We start to build infrastructure for our production bases shortly after we acquire the farmland and it generally takes up to one year for infrastructure construction to be completed. We typically engage third-party contractors to construct infrastructure for our production bases. Construction costs constitute the major capital expenditure we incur before a production base commences production of agricultural produce.

Production Process

Planting and cultivation

Cultivation process. We produce a wide range of quality agricultural produce, using organic fertilizers and a limited amount of chemical pesticides in our production process. We adopt cultivation methods and processes at our production bases on standards that are developed in accordance with the green food production standards prescribed by the CGFDC or organic food production standards prescribed by the OFDC. We also use agricultural methods that we develop based on our knowledge, experience and R&D efforts in new agricultural farming techniques. Such methods impose stringent control over each of the principal stages of the cultivation process, including: the selection of the type and quality of the seeds; the manner and timing of sowing, watering and harvesting; the type, quantity and timing of the application of pesticides and organic fertilizers; and pest and disease management.

The length of the cultivation period for the majority of the produce that we grow ranges from one month to about four months. Our cultivation process is labor intensive and a substantial part of such process is carried out by our full-time or seasonal farm employees. To safeguard product quality, we have established uniform planting and cultivation guidelines, requirements and procedures for each type of produce. All of our employees are trained by us to adhere to such guidelines, requirements and procedures. In addition, our senior agricultural and technical personnel are responsible for on-site field supervision and management throughout the entire cultivation process. Our total yield per mu for vegetables for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010 was 5.6 tonnes, 5.6 tonnes, 5.5 tonnes and 2.5 tonnes, respectively.

Production planning. To optimize production yield and turnover, we prepare an annual production schedule for each of our production bases. This schedule is supplemented by production budgets for each type of produce setting out a cultivation timetable, targeted production volume, estimated raw material requirements and applicable farmland area. In preparing such schedules and budgets, we take into consideration:

- our long-term business and production plans;
- the actual and anticipated supply of and demand for each type of produce;
- the climatic characteristics and requirements of each type of produce;
- the anticipated demand for our produce by key customers;
- the average prevailing market price of each type of produce; and
- our overall production costs.

We also take into account seasonal factors when we determine our annual production schedules as the production yield of each type of produce is affected by seasonal changes. In general, the production yield of most produce is higher in summer than in winter. However, some of our produce has a higher production yield in winter. In addition, some produce may only be grown in the warm or the cold season.

The agricultural produce market is subject to a high degree of price volatility as the supply of agricultural produce may be adversely affected by unpredictable factors such as natural disasters and adverse weather conditions. We closely and regularly monitor changes in market conditions, particularly price differences caused by different climatic conditions in different regions of the PRC or the occurrence of natural disasters. When any such changes occur, we strive to make prompt adjustments to the geographical sales distribution for that season in order to capture the best selling prices available and also adjust our production schedules in the following growing season to take advantage of price differentials.

Standardized measures for production. We adopt five standardized measures at our production bases in an effort to ensure the quality of our produce. These standards include: (i) standardized selection of seeds for growing our fruit and vegetables; (ii) standardized use of organic fertilizers that are manufactured in accordance with OFDC, ISO-9001 and ISO-14001 standards; (iii) standardized use of non-toxic bio-pesticides; (iv) observance of our quality control standards applicable to all production stages and processes under strict supervision by our R&D experts; and (v) standardized inspection and classification of produce in the processing center before distribution to the market.

Fresh and frozen processing. Most of our production bases have packaging facilities located on-site or nearby. Our packaging facilities are equipped for pre-cooling, sorting, packaging, and cold storage of our fresh produce for domestic and international markets. Operating our own packaging facilities nearby enables us to reduce the transport and processing time of our agricultural produce once they are harvested. After processing, our fresh produce will be dispatched quickly to domestic wholesalers, institutional customers or to export trading companies.

On a smaller scale, we also grow crops specifically to be processed for the frozen food industry. We grow the specified crops based on customer orders and we deliver the crops to external frozen food plants for further processing, or we deliver the crops to the processing plant as determined by our customer. In some cases, we grow crops for frozen food processors directly and deliver the crops to them for their further processing and sale. Crops grown for the frozen food industry in the aggregate represent a very small portion of our total turnover.

Quality Control

We adopt and implement stringent quality control measures and procedures throughout our production processes. To ensure that our produce meets high quality standards, such measures and procedures are formulated in accordance with the green food production standards prescribed by the CGFDC or the organic food production standards prescribed by the OFDC.

Our quality control procedures start with the sourcing of raw materials. The raw materials that we source, including seeds and fertilizers, have to meet our quality control standards which are developed in accordance with green food production standards of the CGFDC or the organic food production standards of the OFDC. Samples of raw materials are inspected or tested before they are used in the cultivation process. During cultivation, our staff closely monitors the temperature, soil and weather conditions and climatic changes such as the onset of droughts or floods. Our staff also checks details such as crop appearance, crop size, water and soil acidity, crop disease and pest infestation during each stage of the cultivation process. In addition, we also conduct field inspections and quality checks and analysis of crop samples of each type of produce to detect any chemical substance or pollutants in the crops on a regular basis throughout the cultivation process. As our crops are harvested, they are sent to our processing facilities at or near our production bases for simple processing including sorting and packaging. We implement a vegetable identification system where we tag the boxes of our produce with identification codes when they are harvested, allowing future tracing of the vegetables if such need arises.

Food safety

We and our operations are subject to the food safety laws and regulations of the PRC and of other jurisdictions to which our produce is exported. These include the PRC Food Safety Law and its implementation rules (中華人民共和國食品安全法及其實施條例), the PRC Agricultural Product Quality and Safety Law (中華人民共和國農產品質量安全法), the PRC Import and Export Commodity Inspection Law (中華人民共和國進出口商品檢驗法) and General Principles for the Examination of Food Production Permit (2010) (食品生產許可審查通則 (2010 版)). We use organic fertilizers and strictly limit the use of chemical pesticides. As a result, we believe our produce contains only a very small amount of chemical residue. We periodically test produce samples to ensure that the quality of the produce meets the standards set by the CGFDC and that the level of chemical residue does not exceed the prescribed limit. We believe that we are in compliance with the applicable food safety laws and regulations in the PRC and other relevant jurisdictions in all material respects.

IFOAM membership

Fuzhou Chaoda, one of our principal operating subsidiaries, is a member of the IFOAM, a leading international non-government organization that has formulated a set of standards for organic food production and is engaged in promoting the certification of organic food. We believe that Fuzhou Chaoda is the first integrated agricultural producer in the PRC admitted as a member of the IFOAM. We believe that the IFOAM membership has enabled us to gain wider recognition in the agricultural industry both in the PRC and overseas. We also believe that the IFOAM membership will provide better access to information on the latest developments in organic agriculture worldwide.

Raw Materials and Supplies

Organic fertilizers, seeds and pesticides are the principal raw materials used in our agricultural produce business. The total costs of such raw materials account for a substantial part of our cost of sales.

As the green food production standards of the CGFDC and the organic food production standards of the OFDC exert strict control on the use of synthetic or chemical raw materials, we must ensure that the principal raw materials we use in production are organic or natural. In an effort to ensure strict control in this respect, we purchase all of the organic fertilizers we use in production from Fujian Chaoda Trading at prices determined pursuant to arm’s length negotiations. Fujian Chaoda Trading is a 95%-owned subsidiary of Fujian Chaoda Group Limited (“Fujian Chaoda Group”), which in turn is 95%-owned by Mr. Kwok Ho, our Chairman, as of March 31, 2011. For further details, see “Related Party Transactions.” We believe that the quality of the raw materials supplied by Fujian Chaoda Trading enhances the quality and production yield of our agricultural produce. We have entered into a long-term supply agreement with Fujian Chaoda Trading in respect of the supply of organic fertilizers. For further details, see “Related Party Transactions.” Apart from its sales to us, Fujian Chaoda Trading also sells the same types of organic fertilizers to other independent customers in the PRC.

We purchase raw materials other than fertilizers from independent suppliers. We do not have long-term supply agreements with these suppliers but purchase these raw materials based on purchase orders according to our development and production schedules. Generally all our purchases of raw materials, including purchases of organic fertilizers from Fujian Chaoda Trading, are made at prevailing market prices.

Our five largest suppliers in aggregate accounted for approximately 60.6%, 59.8%, 53.4% and 44.4% of our total purchases for the years ended June 30, 2008, 2009, 2010 and the six months ended December 31, 2010, respectively. The largest supplier, Fujian Chaoda Trading, accounted for approximately 42.1%, 43.2%, 38.8% and 28.2% of our total raw material purchases for each of the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, respectively.

Research and Development

We seek to improve our productivity and profitability by strengthening our agricultural and livestock breeding technologies through R&D. We place strong emphasis on R&D to facilitate continuous improvements in our agricultural methods, product quality, production yield and cost efficiency. Our R&D capabilities have also enabled us to introduce a wide range of crop varieties to the market, which we believe are of higher quality and have better taste than those of many other producers.

As of December 31, 2010, we had more than 100 R&D researchers and technicians. The Huang Shan Technological Farm focuses on developing more effective crop growth techniques, immunization and pest control methods, and improved hybrids and species for different types of produce. To further bolster our R&D efforts, in January 2010, we acquired a 70% equity stake in Keen Spirit Global Limited ("Keen Spirit"), which provides us with R&D capabilities in biological technologies. See "— Other Businesses — Edible vaccine products." In addition to our own R&D activities, we also engage various higher education, academic and research institutions, such as China Agricultural University (中國農業大學) and Fujian Agriculture and Forestry University (福建農林大學), to undertake specific R&D projects, including research aimed at improving the ability of crop species imported from overseas to acclimate for cultivation at our production bases in the PRC. In addition, most of our farms have R&D capabilities to a certain extent. Our major R&D achievements include development of cultivation techniques for green agricultural produce; development of quality rice crops; techniques for preserving freshness of vegetables and fruit during storage and transport; development of planting techniques for fruit trees; and development of breeding technologies including embryo transfer technology and hormone-induced accelerated ovulation technology which enable the commercial breeding of goats and dairy cattle on a more cost-effective and efficient basis.

Sales and Marketing

As part of our centralized management, all our sales are managed by the trade center located at our headquarters with the assistance of our branch offices located in close proximity to vegetable wholesale markets across China. We currently operate branch offices in around 14 provinces and municipalities in the PRC mainly for the distribution and marketing of our agricultural produce. These branch offices not only coordinate with wholesalers and our production bases in their designated areas to facilitate sales settlement and delivery, but also provide timely market data to our headquarters to allow it to effectively manage sales and optimize pricing. We adopt a price monitoring system in our trade center, which monitors the demand for, and the prices of, agricultural produce in over 60 major vegetable wholesale markets across 15 provinces in the PRC. The price monitoring system enables our headquarters to obtain and consolidate pricing information across China to facilitate sales settlement and delivery. It also provides a valuable database of market data that assists efficient management of our cultivation plans, effective allocation of resources and production in order to benefit from price differentials in different regions of the PRC and allows for prompt adjustments to market and seasonal changes. Our branch offices typically liaise with our customers in advance according to the harvesting schedules of our agricultural produce so that we can effectively match the harvest and sales of our agricultural produce. Purchase orders from institutional customers and export trading companies typically are made about 10 days in advance of delivery and our headquarters will issue delivery notice to our production bases to prepare for delivery. Domestic wholesalers generally place purchase orders one to two days in advance of delivery.

Sales

The following table sets forth our sales of agricultural produce broken down by distribution channels for the periods indicated:

	Year ended June 30,						Six months ended December 31,				
	2008		2009		2010		2009		2010		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US$	%
	(in thousands except percentages)										
Sales of agricultural produce by distribution channel											
Domestic sales											
Wholesale markets	3,201,472	64.2	4,156,831	68.4	4,611,907	66.8	2,097,760	65.3	2,634,585	399,180	69.1
Institutional sales	289,189	5.8	322,742	5.3	497,551	7.2	316,969	9.9	193,712	29,350	5.1
Sub-total	3,490,661	70.0	4,479,573	73.7	5,109,458	74.0	2,414,729	75.2	2,828,297	367,311	74.2
Overseas sales	1,497,440	30.0	1,599,059	26.3	1,793,139	26.0	798,262	24.8	981,872	148,768	25.8
Total sales of agricultural produce	4,988,101	100%	6,078,632	100%	6,902,597	100%	3,212,991	100%	3,810,169	577,298	100%

Domestic sales. Sales in the PRC accounted for approximately 70.0%, 73.7%, 74.0% and 74.2% of our agricultural produce sales for the years ended June 30, 2008, 2009, 2010 and the six months ended December 31, 2010, respectively. Domestic sales of our agricultural produce can be categorized as follows:

- *Wholesale markets*. We deliver our agricultural produce daily to more than 60 agricultural produce wholesale markets at the provincial and municipal levels in the PRC where such produce is sold to distributors, who in turn sell to retail customers at local fresh food markets. Sales made at the wholesale markets are denominated in Renminbi and payments are generally made on a cash-on-delivery basis or on a next-day-payment basis. Domestic sales of crops to wholesale markets accounted for approximately 64.2%, 68.4%, 66.8% and 69.1% of our total sales of agricultural produce for the years ended June 30, 2008, 2009 and the six months ended December 31, 2010, respectively.

- *Institutional sales.* We also supply and sell our agricultural produce to institutional customers that consume a high volume of fresh agricultural produce on a daily basis, consisting mainly of hotels, large chain stores, hospitals, schools, government and non-government entities. We normally enter into a framework agreement with each of our institutional customers specifying, among other things, the duration of the agreement and general payment terms. The type and quantity of the produce to be supplied, as well as the price and delivery arrangements are determined on an order-by-order basis. All sales to institutional customers are denominated in Renminbi, and payments are mainly made on credit terms ranging from one to three months after delivery. Domestic institutional sales accounted for approximately 5.8%, 5.3% and 7.2% and 5.1% of our total sales of agriculture produce for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, respectively.

Overseas sales. Our overseas sales comprise sales of our agricultural produce to unaffiliated trading companies in the PRC which in turn export such produce to overseas markets such as Japan, South Korea, Southeast Asia, Europe and North America. Sales to export trading companies accounted for approximately 30.0%, 26.3%, 26.0% and 25.8% of our total sales of agricultural produce for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, respectively. While prices for overseas sales have generally been higher than for domestic sales, profit margin and domestic sales have experienced rapid growth. Our strategy is to sell the majority portion of our agricultural produce in the domestic market, and export approximately 30% of our agricultural produce. All sales to PRC export trading companies are denominated in Renminbi, and payments are mainly made on credit terms of between one month and three months after delivery.

Marketing

We coordinate and supervise our marketing activities primarily through our in house strategy research department in Fuzhou, which handles our government relations, marketing and public relations. Our primary marketing efforts currently consist of our participation in industry trade shows, agricultural exhibitions and expositions at international, national and local levels. We intend to strengthen direct marketing initiatives targeting large institutional customers and to increase brand awareness of our name and agricultural produce among consumers in general.

Largest customers

Our five largest customers in aggregate accounted for approximately 12.5%, 11.8%, 8.8% and 10.7% of our total turnover for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, respectively. Our largest customer accounted for approximately 2.6%, 2.8%, 2.1% and 2.7% of our total turnover for the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, respectively.

Pricing policies

There is no regulatory requirement in the PRC that we obtain governmental approval to set the prices of our agricultural produce or that we meet relevant agricultural production quotas. However, the PRC government may from time to time adopt measures to stabilize the prices of agricultural produce.

We endeavor to offer a wide range of quality agricultural produce at competitive prices to our customers, both domestic and overseas. The pricing of our agricultural produce for overseas sales is on average higher than for domestic sales. We formulate the pricing policies with regard to each type of our agricultural produce by taking into account the following factors:

- the demand for and supply of each type of produce;
- the availability and prices of comparable produce in the relevant market;
- the quality and the physical appearance of each type of produce; and
- in respect of sales to institutional customers, the business relationship with such customers.

Although we believe that our agricultural produce is of higher quality, particularly in terms of natural flavor and physical appearance, we maintain the prices of most of our produce at a level comparable to prices charged by other producers in the PRC. As consumers in the PRC become increasingly aware of the health benefits of green and organic agricultural produce, we believe our competitive pricing gives them the option of purchasing our higher quality produce without having to pay a significant premium. We believe that our competitive pricing strategy has enhanced and will help us to further consolidate our reputation and market share.

Transportation

As part of our centralized management, our trade center at our headquarters instructs our production bases when customers wish to collect the agricultural produce they ordered themselves according to the purchase orders. Export customers typically arrange their own transportation. Where we need to deliver, we arrange our own transport to deliver our agricultural produce to customers. We may also engage third-party transportation companies to make such deliveries depending on the availability of our trucks. We also have our own refrigerated trucks for deliveries that require refrigeration of the produce.

Other Businesses

In addition to the agricultural produce business, we are also engaged in the livestock breeding and tree plantation businesses in the PRC.

Livestock breeding business

We are engaged in the breeding and sale of livestock. As of December 31, 2010, we operated goat breeding facilities in Fujian Province in the PRC. We also have dairy cattle breeding facilities in Duo Lun County of the Inner Mongolia Autonomous Region in the PRC for raising high quality breeds of dairy cattle. Turnover from the livestock business accounted for less than 1% of our total turnover for each of the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010.

Tree plantation operations

We started our tree plantation operations in 2005 to grow mainly eucalyptus trees and intend to harvest and sell them to timber wholesalers and furniture manufacturers. As the growth cycle of the trees is about five years, our tree plantation operations have not contributed to our revenue to date. We expect some of the trees we grow will start to reach maturity for harvesting later in 2011 or in 2012.

Edible vaccine products

In January 2010, we acquired a 70% equity interest in Keen Spirit for consideration of HK$450.0 million, satisfied in full by the allotment and issuance of our shares. Keen Spirit wholly owns VaxGene Corporation, a company engaged in the R&D of biological technologies and which owns patent application rights with respect to certain biological technologies. We intend to use these technologies and cooperate with universities or research institutes to conduct further research and experiments to develop vegetable and fruit products that contain edible vaccines that combat viruses and bacteria. This project is in a preliminary stage, however, and as of March 31, 2011, we have not signed any definitive agreements with any universities or research institutes.

Intellectual Property

We use the “” trademark in Hong Kong and Japan, and the “,” , and “” trademarks in the PRC, in connection with the sale of our agricultural produce. We market our agricultural produce under these trademarks to our immediate customers including supermarkets. These trademarks have been registered in the places where they are used (except that the “” and “” trademarks have not been registered in the PRC due to the general meanings and common usage of the Chinese words “超大”). These trademarks and logos are owned by Mr. Kwok Ho, the Chairman and an executive director of the Company. Pursuant to a trademark license agreement and a supplemental trademark license agreement entered into between the Company and Mr. Kwok Ho on December 1, 2000 and April 2, 2007 respectively, we have been granted the exclusive right to use these trademarks in connection with the production, sale, supply and distribution of agricultural produce for no consideration for a term of 30 years commencing from December 1, 2000.

Competition

We produce and supply a wide range of quality agricultural produce to our customers. Through our in-house R&D and R&D undertaken by the various national and local academic and research institutions that we engage, we have succeeded in acclimating various types of agricultural produce imported from overseas for cultivation at our production bases in the PRC. This enables us to supply a wider variety of agricultural produce.

The PRC agricultural industry is highly fragmented with over 250 million farming households. We believe that other than a small number of larger scale agricultural producers, most of the agricultural producers in the PRC are private farmers and collectives operating on a relatively small scale using traditional, non-standardized farming approaches. We believe that such producers frequently face problems such as insufficient funding and resources, and lack of advanced technological know-how and research support. Therefore, we believe we have competitive advantages over such small-scale producers. Although certain other agricultural producers in the PRC operate on a larger scale than private farmers, most of them do not operate on a national scale comparable to us.

In addition, we believe there are high barriers to entry into large-scale industrialized farming, as it requires significant capital expenditure for the acquisition of land and the building of necessary infrastructure and distribution network. A potential market participant may require significant time and resources to build up a national network of production bases and a supply chain across China. Significant investment of time and resources are required for the selection of suitable farmland, the establishment of production bases for year-round and large-volume supply, and the training of management, technicians and professional farmers. We believe our nationwide production scale and established brand name enable us to compete effectively against existing and potential market participants in the PRC agricultural industry.

Environmental Matters

Our operations are subject to PRC environmental laws and regulations. These include laws and regulations regulating the excessive use of chemical pesticides in agricultural production and the protection of farmland. We adopt cultivation methods and processes in the production of our agricultural produce that are developed in accordance with the green food production standards prescribed by the CGFDC or the organic food production standards prescribed by the OFDC. These standards either prohibit or strictly limit the use of chemical pesticides, chemical fertilizers and other raw materials that may constitute environmental hazards. In order to protect natural soil fertility, we also practice crop rotation and protect our farmland from depletion of nutrients.

Insurance

We maintain employee social insurance for our full-time employees, which is required by the PRC government.

We do not carry any insurance coverage with respect to our properties. We are not insured against business interruption, or damage to crops or livestock or other losses resulting from natural disasters such as droughts, floods, earthquakes, hailstorms, windstorms, snowstorms, pests, crop diseases or damage to our properties. We also do not carry any "key person" insurance on any of our key management personnel. We believe that such risks or damage are either uninsurable or cannot be insured in the PRC at a commercially reasonable cost. See "Risk Factors — Risks Relating to the Agricultural Industry in China — Our operations are susceptible to weather conditions, natural disasters and other uninsured risks."

We do not carry any product liability insurance or other insurance to cover our exposure to any breach of environmental and food safety laws. We believe that such risks in the agricultural produce business either are uninsurable or cannot be insured in the PRC at a commercially reasonable cost. To control such risks, we place significant emphasis on quality control. See "Risks Factors — Risks Relating to our Business — We face risks associated with contamination or deterioration of our agricultural produce and we may be subject to product liability claims." As of March 31, 2011, we have not experienced any third-party liability claim in relation to our produce.

Internal Control on Cash Management

We sell the majority of our agricultural produce at wholesale markets in different cities in the PRC. In accordance with the customary practice of the agricultural industry in China, and due to the limited number of banking products suitable for our business model in the PRC, most of our transactions are settled in cash. The cash-intensive nature of our business presents issues relating to internal control, including risks of loss, theft or misappropriation of cash by our employees or other persons. In order to mitigate these risks, we have formulated and implemented various internal control policies and measures, which include:

- separation of product delivery and cash collection functions such that production base personnel typically do not collect payment;
- centralizing at our headquarters and regional offices the receipt of cash from our sales personnel who have collected cash from our customers at wholesale markets, and using duplicate copies of goods dispatch notes for cross-checking purposes when the accounting department records and settles payments received from customers;
- promptly depositing the majority of cash received by our headquarters and regional offices on the date of receipt or the day immediately following; and
- closely monitoring our cash position and conducting regular and random inspections in an effort to ensure that cash in-hand is properly accounted for.

We believe that as of the March 31, 2011, we have not experienced any material loss of cash.

Employees

As of December 31, 2010, we employed approximately 22,430 employees, of which approximately 21,224 were workers at our production bases in the PRC.

In the past, we have not experienced any significant difficulty in recruiting our employees and have not experienced any significant staff turnover or labor dispute. We believe that we have good relations with our employees.

At each of our production bases, we employ farm employees who are recruited from both within and outside the province where such production base is located. We also employ seasonal workers from time to time during the sowing and harvesting seasons to cope with the increased work load. These employment arrangements with our farm employees comply with the relevant labor laws and regulations of the PRC in all material respects.

Legal Proceedings

We are not involved in any litigation or arbitration proceedings that would have a material adverse effect on our business or financial position, nor are we aware of any such litigation or arbitration pending or threatened.

GOVERNMENT REGULATIONS

Legal Framework of the PRC Agricultural Industry

According to the PRC Agriculture Law promulgated in 1993 and amended in 2009 (中華人民共和國農業法) (the "Agriculture Law"), the legal framework governing the PRC agricultural industry mainly addresses the following key areas:

- *Land-ownership rights and land-use rights.* Land in the PRC is owned either by the state or by collectives. Land-use rights pertaining to state-owned land may be granted or assigned subject to the relevant laws, regulations and procedures. The government has implemented a system under which the operation of rural land may be contracted to farming households and third parties. Such land-use rights may be transferred or assigned subject to the relevant laws, regulations and procedures.

- *Production and operational standards.* The government has established safety standards covering aspects of the agricultural sector from the production of crop seeds to the inspection of animal and plant products prior to their distribution to the general marketplace. Governmental approval and licensing systems have been implemented with respect to aspects of the agricultural industry including crop seeds, pesticides, fishery, livestock and poultry operations, and the production and processing of genetically engineered agricultural products.

- *Entities engaged in agricultural production and operations.* The state encourages and supports enterprises, institutions and individuals to engage in trans-regional or inter-industry joint-operation activities in the production, processing or distribution of agricultural products. The state also encourages enterprises engaged in the production, processing, or distribution of agricultural products to enter into contractual relationships such as joint ventures or other cooperative arrangements with individual farmers or village collective economic entities.

- *Protection of the environment.* The development of the PRC agricultural industry must involve the rational utilization of resources, aim to protect and improve the ecological environment, and be accompanied by the establishment of a regulatory system to protect the environment.

- *Quality of agricultural products.* A quality standards system for agricultural products and an inspection and monitoring system to enforce such quality standards shall be instituted. The government supports the establishment of a certification or recognition system for the identification of quality agricultural products.

Summary of Laws Related to the PRC Land System

The Agriculture Law sets forth only broad guidelines regarding the regulation of land in the PRC. The legal and regulatory framework governing agricultural land in the PRC was established based on the PRC Law on Land Management promulgated in 1986 and amended in 1988, 1998 and 2004 (中華人民共和國土地管理法) (the "Land Management Law") and the PRC Law on the Contracting of Rural Land promulgated in 2002 and amended in 2009 (中華人民共和國農村土地承包法).

Land classifications

The PRC government has implemented a land-use control system which classifies land into three categories: agricultural land, construction land and unutilized land. The PRC government restricts the conversion of agricultural land into construction land and also places limits on the total land area designated as construction land in order to preserve farmland.

The PRC government has formulated an overall land utilization plan. Entities and individuals in possession of land-use rights must use the subject land in strict accordance with, and for the purposes set forth in, the overall land utilization plan.

Land registration and certification system

According to the Land Management Law, duly registered land-ownership and land-use rights are protected under law. According to the Rules for the Implementation of the PRC Law on Land

Management implemented in January 1999 (中華人民共和國土地管理法實施條例), key requirements under the land registration and certification system are as follows:

- for land that is collectively owned by rural residents, government authorities of the county where the subject land is situated shall compile a register and issue registration certificates evidencing collective land ownership;
- for collectively-owned land that is contracted out for operation by farming households of the same rural collective organization or by other entities or individuals, government authorities of the county where the subject land is situated shall issue a certificate to evidence the right to operate the subject land in accordance with the relevant contract;
- where collectively-owned land is used for non-agricultural construction, the users of the subject land shall submit a land registration application to the land administration department of the county where the subject land is situated. Such land administration department shall register the right, issue a certificate evidencing the land-use right for such collectively-owned land and confirm the right to use the land for construction purposes.
- for state-owned land that is used by entities or individuals, county-level (or above) government authorities of the area where the subject land is situated will compile a register and issue relevant certificates of land-use rights for such state-owned land.
- Where the land-ownership right or land-use right is altered, an application to amend the registration must be submitted to the land administration department of the relevant government authority. Such amendment shall be effective from the date of the recording of the amendment. If changes are made to the purpose of the use for the subject land, an application to amend the registration must be submitted to the land administration department of the relevant government authority.

Land ownership

Only two kinds of ownership with respect to land exist in the PRC: ownership by the state or collective ownership by rural residents. The State Council represents the state in exercising ownership rights over state-owned land. The land collectively owned by rural residents is operated and managed by village collective economic entities or villager committees consisting of individual villagers. The ownership of land in the PRC cannot be assigned or transferred.

Land-use rights

State-owned land

Entities or individuals can use state-owned land allocated or granted to them by the appropriate local government or enter into contracts to operate state-owned land for activities relating to plantation, forestry, livestock husbandry or fishery. The government has implemented a system by which it transfers land-use rights for state- owned land to individuals or entities in return for compensation. Land-use rights for state-owned land may be assigned or transferred subject to the relevant laws, regulations and procedures.

Collectively-owned land

Land-use rights with respect to land collectively owned by rural residents cannot be granted. Such land may, however, be contracted for operation by members of the collective economic entity in possession of the land-use rights or by an entity or individual that is not a member of the collective economic entity. Such a contract with an entity or individual that is not a member of the collective economic entity must be approved by at least two-thirds of the members of the village assembly or by at least two-thirds of the villager representatives and must subsequently be submitted to the government authorities at the township or town level, as applicable, for approval.

The PRC government applies a system of contracting for the operation of rural land. The certificate evidencing the right to operate contracted land is issued to the contract-undertaking party and is registered with and recorded by local governments at or above the county level, which confirms the right to operate the contracted land. Furthermore, the government protects the rights of the party to whom the land is contracted to enter into agreements to permit third parties to operate the contracted land on a legal, voluntary, and compensated basis. According to the Regulation on the Administration of Certificate of Right to Operate Contracted Rural Land promulgated in 2003 (農村土地承包經營權證管理辦法), during the term of the contract to operate the subject land, if the party to whom the land is contracted enters into an agreement to subcontract or lease the contracted land or use the right to operate the land as an equity investment, the registration of the right to operate contracted land does not need to be amended.

Licensing and Approval System for Agricultural Production and Operations in the PRC

In the PRC, special licenses must be obtained before engaging in the following agricultural production and operational activities:

- *Breeding of livestock and poultry.* According to the Regulations on the Administration of Breeding of Livestock and Poultry promulgated in 1994 (種畜禽管理條例), the undertaking of livestock and poultry breeding activities in the PRC requires government approval. Entities or individuals who intend to engage in such activities must apply for a license from the competent authorities. For those intending to engage in activities involving the production and trade of frozen sperm, embryos or other genetic materials of livestock or poultry, an application for a license authorizing such activities must be submitted to the livestock agriculture administrative department of the State Council, or the livestock agriculture administrative department for the province, autonomous region or municipality directly under the PRC central government. The breeding of livestock or poultry sold for breeding purposes must meet national standards promulgated by the PRC government, industry standards or local standards, as applicable, and must be accompanied by certificates of qualification as well as the pedigree for such livestock or poultry.

- *Seeds.* According to the Seeds Law of the PRC, as amended in 2004 (中華人民共和國種子法), the export by any individual or entity of crop seeds outside of the PRC is subject to the approval of the agriculture and forestry administrative departments under the State Council.

  Operations and activities relating to the seeds of important agricultural crops and trees are subject to approval at the national and provincial levels. The commercial production of seeds of important agricultural crops and trees requires a license from the agriculture and forestry administrative departments at the applicable government levels.

  Operations and activities relating to seeds requires an operational license from the governmental authorities regulating the agricultural and forestry sectors. In addition to the operational license, parties engaged in the commercial import and export of seeds must obtain a license authorizing the import and export of seeds.

- *Pesticides.* According to the Regulations on the Administration of Pesticides, as amended in 2001 (農藥管理條例), activities relating to pesticides are subject to a registration system. Parties engaged in the production and development of pesticides as well as foreign enterprises engaged in selling pesticides into the PRC must register with the competent authorities and obtain registration certificates.

  Parties engaged in the production of pesticides subject to national or industry standards must obtain a license from the industrial products license administrative department of the State Council. Parties engaged in the production of pesticides subject to only enterprise standards, but not to national or industry standards, must first apply for approval to produce such pesticides from the industrial products license administrative department at the provincial level prior to applying for their license from the State Council.

  The types of entities that may engage in the distribution and sale of pesticides are limited to the following: supply and marketing cooperatives engaging in agricultural production, local entities engaged in plant preservation or soil fertilizer operations, entities engaged in the promulgation of agricultural and forestry technologies, entities engaged in the prevention and treatment of forestry diseases and infestations by insect pests, pesticide manufacturing enterprises and other entities expressly designated by the State Council. If the pesticide in question constitutes a chemically hazardous substance, an operational license is required for the distribution and sale of the pesticide.

Summary of PRC Laws Relating to Agricultural Products

Contaminant-free agricultural products

"Contaminant-free" agricultural products are agricultural products that are high-quality and produced according to guidelines that aim to minimize their exposure to pollution, reduce the levels of processing and reduce or minimize the amount of additives or preservatives used in the products. According to the Regulation on the Administration of Contaminant-Free Agricultural Products promulgated in 2002 (無公害農產品管理辦法), labeling of contaminant-free agricultural products to identify the origin of such products and any applicable product certification standards is currently implemented on a voluntary compliance basis. However, entities and individuals who have been issued certifications regarding the contaminant-free nature of their agricultural products may affix a symbol indicating such contaminant-free certification on the packaging, advertisement, instruction manuals, or such other materials as specified in the certification.

Genetically-engineered agricultural products

The government has implemented a compulsory licensing system with respect to genetically-engineered agricultural products. According to the Regulation on the Administration of Safety of Generically-Engineered Agricultural Products promulgated in 2001 (農業轉基因生物安全管理條例), the PRC government has implemented a safety evaluation system and labeling standards for genetically-engineered agricultural products. Approval and licensing requirements are implemented for the production, processing and operations of genetically-engineered agricultural products. To engage in the production of genetically-engineered crop seeds, breeder livestock and poultry, a production license, as well as a safety certification and approval of the species or breed in question, must be obtained from the agriculture administrative department of the State Council. In order to engage in operations relating to genetically-engineered crop seeds, breeder livestock or breeder poultry, an operational license must be obtained.

Animal products

According to the PRC Law on Animal Epidemic Prevention promulgated in 1997 and amended in 2007 (中華人民共和國動物防疫法), entities or individuals engaged in animal husbandry or related operations, as well as those engaged in the production of animal products or related operations must meet the epidemic prevention requirements promulgated by the competent authorities and are subject to mandatory inspection procedures to ensure compliance with such epidemic prevention requirements. The institutions in charge of such inspections issue certificates for animals and animal products that have passed inspection and affix to such animals or animal products a marking indicating that they have passed inspection. To build an animal farm or quarantine location, animal slaughtering and processing house, or a place where animals and animal products are decontaminated, an application shall be submitted to the administrative department for veterinary medicine at or above the county level. If the application passes the examination, the certificate of conformity to the conditions for animal epidemic prevention shall be issued to the applicant.

Agricultural products for export

According to the PRC Law on Quarantine of Import and Export of Animals and Plants promulgated in 1991 and amended in 2009 (中華人民共和國進出境動植物檢疫法), the owner (or his or her agent) of the animals and plants (or related products) sought to be exported must, before the exit of such products from the PRC, submit an application for quarantine inspection to the applicable port's animal and plant quarantine office. Animals and plants (or related products) that satisfactorily complete the quarantine inspection are allowed to exit the PRC. PRC customs officials, after verification of compliance with export controls, may release the same in reliance upon the quarantine certificates that have been issued or the stamps that have been affixed to the customs declaration forms by the port's animal and plant quarantine office. Animals and plants (or related products) that fail to satisfactorily complete the quarantine inspection are not allowed to exit the PRC.

Agricultural Product Quality Safety Law

According to the PRC Agricultural Product Quality Safety Law promulgated in 2006 (中華人民共和國農產品質量安全法) "agricultural products" refers to primary products sourced from agriculture, including plants, animals, microorganisms and products obtained from agricultural activities.

Agricultural enterprises are required to maintain production records of the application of agricultural raw materials, the harvest date of produce, the occurrence of plagues and insect pests, if any, and extermination measures taken. Production records must be kept for at least two years.

Agricultural products for sale must be in compliance with quality and safety standards. Producers may apply for a permit for agricultural marks to qualify as a contaminant-free agricultural products producer. Once the quality of their agricultural products meets the quality standards set by the state for high-quality agricultural products, these producers may apply to use the appropriate quality label on agricultural products.

Food Safety

The PRC government has strengthened its supervision and regulation over food safety. According to the Special Rules on Strengthening Safety Supervision of Food and Other Products promulgated in 2007 (國務院關於加強食品等產品安全監督管理的特別規定), food producers and distributors are liable for the safety of food products produced or sold, including edible agricultural products, drugs and other products concerning the health and safety of human beings. Food production and distribution activities must comply with the relevant standards and requirements as provided by relevant laws and regulations. Raw materials, food additives and other materials used by food producers in their production must meet legal and industrial standards. If a producer discovers any of its products are potentially dangerous and could harm human health, the producer must announce such information to the public and recall such product.

According to the PRC Food Safety Law promulgated in 2009 (中華人民共和國食品安全法) and its implementation rules, the quality and safety of edible agricultural products is governed by the Agricultural Product Quality Safety Law. The PRC Food Safety Law applies to the formulation of quality and safety standards and the disclosure of safety-related information relating to edible agricultural products.

Quality Marks on Agricultural Products

According to the Agricultural Product Quality Safety Law, producers of agricultural products may apply for the use of "contaminant-free" marks on their agricultural products. They may use this quality mark on their products if the agricultural products comply with the standards prescribed by the state for high-quality agricultural products.

According to the Regulation on the Administration of Contaminant-Free Agricultural Products, contaminant-free agricultural products may be authenticated by two methods, namely origin authentication and product authentication. The authentication takes into account the conformity of the plantation environment, processing procedures and product quality with the relevant state standards and specifications. The producers may use contaminant-free marks on their agricultural products after obtaining the relevant authentication certificates.

According to the Administrative Measures for Green-food Marks promulgated in 1993 (綠色食品標誌管理辦法), without the examination and approval of the competent authorities, no person may use green-food marks on agricultural products.

WTO Commitments by the PRC with Respect to Agriculture

The PRC, in connection with its accession to the WTO, has made the following commitments with respect to agricultural products:

- the elimination of non-tariff barriers and the reconstitution of such non-tariff barriers into trade tariffs;
- the reduction of trade tariffs;
- the implementation of tariff-rate quotas and increase of tariff-rate quotas for key agricultural products such as wheat, corn, rice, soy bean oil, sugar, and cotton; and
- the elimination of export subsidies for PRC agricultural products.

Foreign Exchange Controls

Remittance of dividends

According to the PRC Wholly Foreign-owned Enterprise Law promulgated on April 12, 1986 and amended on October 31, 2000 (中華人民共和國外資企業法), a foreign investor may remit abroad profits that are lawfully earned from an enterprise with foreign capital, as well as other lawful earnings and any funds remaining after the enterprise is liquidated. Under the PRC Wholly Foreign-owned Enterprise Law Implementing Rules promulgated on December 12, 1990 and amended on April 12, 2001 (中華人民共和國外資企業法實施細則), a WFOE may pay dividends out of its profits after it has set aside at least 10% of after-tax profits as a reserve fund (no after-tax profit needs to be set aside once the cumulative amount of the reserve fund reaches 50% of the registered capital of the WFOE) and, at its discretion, allocate a portion of its after-tax profit to staff welfare and bonus funds.

For overseas remittance of the current year's dividends, a WFOE is required, under the Circular on Relevant Questions Concerning the Remittance of Profits, Dividends and Bonuses Out of China Through Designated Foreign Exchange Banks (關於外匯指定銀行辦理利潤、股息、紅利匯出有關問題的通知), which was issued on September 22, 1998 and amended on September 14, 1999, to submit the following documents to a designated exchange bank:

- proof of tax payment and tax returns (WFOEs enjoying tax reductions or exemptions shall provide certification of tax reduction and exemption issued by the local tax authorities);
- an auditor's report on the profit and dividend situation for the current year issued by an accounting firm;
- the resolution of the board of directors relating to the dividend distribution;
- the foreign invested enterprise (FIE)'s foreign exchange registration certificate;
- the capital verification report issued by an accounting firm; and
- any other documents the SAFE may require.

In addition, for overseas remittance of preceding years' dividends, a WFOE shall appoint an accounting firm to conduct an audit for the year(s) in which the dividend-related profits were generated and shall present the auditor's report to the bank as a required supplemental document.

In the case of foreign investment companies the registered capital of which has not been fully paid up in accordance with the investment contract, the dividends in foreign currency may not be remitted out of the PRC. If there are special circumstances under which the registered capital cannot be contributed within the time limit as specified in the investment contract, the foreign investment company shall apply for approval with the original approving authority. With the approval of the original approving authority and the above-mentioned required documents, the dividends in foreign currency shall be remitted out of the PRC in proportion to the registered capital that has actually been contributed.

Shareholder loans

A shareholder loan made by foreign investors as shareholders of FIEs such as EJVs and WFOEs is regarded as foreign debt in China, which is subject to a number of PRC laws and regulations, including the Foreign Exchange Control Regulations promulgated in 1997 and amended in 2008 (中華人民共和國外匯管理條例), the Interim Measures for the management of Foreign Debts of 2003 (外債管理暫行辦法),the Statistical Monitoring of Foreign Debts Tentative Provisions of 1987 (外債統計監測暫行規定), the Implementation Rules for the Statistical Monitoring of Foreign Debts of 1997 (外債統計監測實施細則) and the Administration of the Settlement, Sale and Payment of Foreign Exchange Provisions of 1996 (結匯、售匯及付匯管理規定).

Under these regulations, a shareholder loan by foreign investors made to EJVs and WFOEs does not require the prior approval of the SAFE. However, such foreign debt must be registered with and recorded by the SAFE or its local branch in accordance with relevant PRC laws and regulations.

The procedures for registration of the foreign debt and remittance of foreign currency for related interest, principal and other payments are as follows:

1. Within 15 days after formal execution of a shareholder loan agreement, a borrower shall present relevant documents to the SAFE or its local branch and complete registration procedures and collect a seriatim Foreign Debt Registration Certificate (外債登記證). The submission includes (i) a signed application, (ii) an original and copy of the shareholder loan agreement, (iii) a completed Form with Information on Execution of Foreign Debt Agreement (外債簽約情況表), (iv) the Foreign Exchange Registration Certificate for Foreign Investment (外商投資企業外匯登記證), the investment contract relating to the establishment of the FIE and a capital verification report, and (v) any other documents that the SAFE or its local branch may require.

   Moreover, in connection with foreign debt registration, the registered capital of the related foreign FIE must be fully paid up in accordance with the investment contract. The amount of the medium and long-term foreign debt that the FIE has borrowed may not exceed the difference between the total investment as stipulated in the investment contract or the FIE's articles of association and its registered capital. In principle, the interest rate on foreign loans may not be higher than the interest rate on similar loans in the international financial market; otherwise, the registration could be denied by the relevant administration of foreign exchange.

2. When a borrower transfers foreign currency into China pursuant to foreign loan agreements, upon presentation of its Foreign Debt Registration Certificate, it shall open a Foreign Debt Spot Exchange Special Account (外債專用現匯帳戶) with a bank in the PRC designated or approved by the SAFE.

3. When a borrower repays principal and interest, it should make an application to the SAFE or its local branch based on the specified valid vouchers for the issuance of a Verification Certificate (核准件). The submission includes (i) a signed application form (加蓋申請單位公章的業務申請表), (ii) the Foreign Debt Registration Certificate, (iii) the shareholder loan agreement, (iv) notices of repayment of principal and interest issued by the lender (債權人的還本付息通知單), which shall include the total amount of the principal and interest for repayment, the amount of the principal to be repaid, the interest rate and the method and period for calculating interest, (v) a notification of the transfer into a bank account of the related portion of the loan and the current foreign currency account statement (該筆貸款金入帳通知單和現有外匯帳戶對帳單), (vi) any proof of tax payment and tax returns for the payment of interest and fees (對外支付利息和費用需提供稅務憑證), and (vii) any other documents that the SAFE or its local branch may require.

4. The bank which has opened the account for such borrowers shall rely on the Verification Certificate and Foreign Debt Registration Certificate provided by the borrower and effect payment through the Foreign Debt Spot Exchange Special Account.

5. In accordance with the bank payment documentation, the borrower shall record the amount of the payment in a Recordation of Change in Foreign Debt Form (外債變動反饋表) and file a copy with the SAFE or its local branch that issued the Foreign Debt Registration Certificate.

MANAGEMENT

The following table sets forth certain information with respect to our directors and senior management as of December 31, 2010:

Name	Age	Position
KWOK Ho	55	Chairman of the Board and Chief Executive Officer
LI Yan	46	Executive Director
HUANG Xie Ying	62	Executive Director
KUANG Qiao	39	Executive Director
CHEN Jun Hua	43	Vice President of General Affairs and Executive Director
CHAN Chi Po, Andy	44	Chief Financial Officer and Executive Director
IP Chi Ming	49	Non-Executive Director
FUNG Chi Kin	61	Independent Non-Executive Director
TAM Ching Ho	39	Independent Non-Executive Director
LIN Shun Quan	55	Independent Non-Executive Director
LUAN Yue Wen	50	Independent Non-Executive Director

Executive Directors

Mr. KWOK Ho, age 55, is our Chairman of the Board and Chief Executive Officer ("CEO"). Mr. Kwok is our founder and a director and the legal representative of some of the subsidiaries of our Company. Mr. Kwok is primarily responsible for the formulation and deployment of our overall strategy. 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 re-elected as a member of the 10th Fujian Provincial Committee of the Chinese People's Political Consultative Conference ("CPPCC") and as the 2nd President of the Fujian Agricultural Industrialization 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 Outstanding Contribution Entrepreneur of Fujian Province. At the eleventh meeting of the Standing Committee of the Eleventh National Committee of the CPPCC, Mr. Kwok became member of the CPPCC.

Dr. LI Yan, age 46, is an executive director of the Board. He is primarily responsible for our research and innovation technology management. He received his masters and doctorate degrees in Plant Nutrition and Horticulture from Fujian Agricultural University 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 us in January 1997.

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

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

Mr. CHEN Jun Hua, age 43, is an executive director of the Board and our Vice President of General Affairs. He is mainly responsible for assisting the CEO in administrative management regarding our business and operations in China. Mr. Chen received his bachelors degree in agriculture from the China Agricultural University and a masters degree in agriculture marketing from the Chinese Academy of Agricultural Sciences. Mr. Chen has over 20 years of experience in agricultural development and administrative management. He joined us in October 2002 and was appointed as an executive director of on August 17, 2005.

Mr. CHAN Chi Po, Andy, age 44, is an executive director of the Board and our Chief Financial Officer. He is also a director of certain of our subsidiaries. Mr. Chan is primarily responsible for financial management and financial information analysis. Mr. Chan graduated from The University of Sheffield in the United Kingdom with an honors 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 us 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 three 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 eight years before joining us. Mr. Chan was appointed as an executive director and the Chief Financial Officer on August 17, 2005.

Non-Executive Director

Mr. IP Chi Ming, age 49, was formerly an executive director of the Company until January 8, 2010 when he was re-designated as a non-executive director of the Company. Mr. Ip is a director of some of our subsidiaries and is also the non-executive vice chairman of Asian Citrus Holdings Limited, a company in which we have investments that is 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 February 25, 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, age 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 organizations 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 was appointed as an independent non-executive director of our Company on September 1, 2003. He is a member of the Audit and Remuneration Committee of the Company, and is the Chairman of the Renumeration Committee.

Mr. TAM Ching Ho, age 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 bachelors degree of arts with honors in accounting from the City University of Hong Kong in 1993. Since graduation, Mr. Tam has worked in a reputable international accounting firm specializing 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 approximately seven years. He is currently a certified public accountant (practicing) 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 operations, 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, age 55, received his doctorate degree in Agriculture from Fujian Agricultural University and twice took sabbatical at Saga University in Japan, in 1988 and 1996, respectively. He was appointed as professor at Hua'nan Agricultural University as well as head of the College of Horticulture, Hunan Agricultural University. He has extensive experience in the agricultural industry in the PRC. Professor Lin was appointed as an independent non-executive director of our Company on November 17, 2000.

Ms. LUAN Yue Wen, age 50, holds a professional diploma in Computer Science, a professional diploma in Economic Law, a professional diploma in Financial Accounting, a master's degree in Business Administration and a master's degree in Building Construction and Real Estate Project Management. Ms. Luan has over 20 years of experience in the financial accounting and auditing. 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 was appointed as an independent non-executive director of our Company on September 20, 2004.

Senior Executives

Our senior executives also include KWOK Ho, IP Chi Ming, CHEN Jun Hua and CHAN Chi Po (Andy). See "— Executive Directors" for the description of their experience.

The table below sets forth certain information regarding our senior executives, excluding Executive Directors:

Name	Age	Position
Ms. YEUNG Pik Chun, Colana	53	Legal Counsel and Company Secretary
Mr. WANG Zhi Qun	55	Vice President
Mr. YANG Jin Fa	35	Vice President and General Affairs Vice President of the Strategic Planning Department
Mr. David Alfred SEALEY III	47	Deputy Chief Operation Officer
Mr. WANG Jin	34	Assistant to the CEO
Mr. GONG Wen Bing	40	General Agronomist
Mr. HE Can De	47	Assistant to the CEO
Mr. WANG Jing Hai	59	Head of the Internal Audit Department
Mr. WANG Long Wang	45	Head of Production Base Department and Deputy Head of the Technology Research Center
Mr. SHI Shu Quan	35	General Manager of the Trading Department

Ms. YEUNG Pik Chun, Colana, age 53, is our Legal Counsel and Company Secretary. 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, and practiced as a barrister in Hong Kong. Prior to her legal practice, Ms. Yeung held senior company secretarial and management positions in various corporate organizations for over 15 years. Ms. Yeung joined us in December 2006.

Mr. WANG Zhi Qun, age 55, is a Vice President. Mr. Wang is primarily responsible for the management of our administration and logistics matters. Mr. Wang graduated from San Ming Teachers School, and received local and overseas senior managerial training. Prior to joining, Mr. Wang was a senior corporate executive and has over 26 years of extensive experience in integrated corporate management. Mr. Wang joined us in February 2000.

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

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

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

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

Mr. HE Can De, age 47, is an assistant to the CEO. 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. Mr. He has extensive experience in the management of production bases, construction and planning of investment projects, product development and sales. He joined us in 2000.

Mr. WANG Jing Hai, age 59, is the head of our Internal Audit Department. He is responsible for our internal auditing and internal control. Mr. Wang graduated from Shanghai East China Normal University with a bachelor's degree in accounting and economics. Prior to joining us, he worked in a large state-owned enterprise in Shanghai and an American wholly-owned foreign enterprise, and was responsible for corporate management, internal control and auditing. He has over 34 years of experience in management and internal auditing and joined us in 2000.

Mr. WANG Long Wang, age 45, is the head of our Production Base Department and is Deputy Head of our Technology Research Center. Mr. Wang is primarily responsible for the management of our technology research and development, and for demonstration and promotion work for our production bases. Mr. Wang graduated from the College of Horticulture, Nanjing Agricultural University with a degree in agriculture in 1985. Prior to joining our Group, he worked in the Vegetables Office of Fujian Province, Fuzhou Institute of Vegetable Science and was 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 and joined us in 2000.

Mr. SHI Shu Quan, age 35, is the General Manager of our Trading Department. He is primarily responsible for product marketing and management of our production bases. Mr. Shi graduated from Xiamen Tourism School. Prior to joining, 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 channel development, customer relationship management, price management and team building and joined us in 2006.

Company Secretary

Ms. YEUNG Pik Chun, Colana See "— Senior Executives" for a description of Ms. Yeung's experience.

Directors' Remuneration

The directors' emoluments are subject to the recommendations of the remuneration committee and the Board's approval. The emoluments are determined by the Board with reference to directors' duties, responsibilities and performance and the results of our Group.

For the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, the aggregate amount of remuneration paid by us to our directors was RMB10.2 million, RMB44.2 million, RMB11.1 million and RMB35.6 million, respectively.

Board Committees

Audit Committee

The responsibilities of the Audit Committee include monitoring the integrity of the financial statements of our 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 our 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 authorized by the Board to obtain outside legal or other independent professional advice at our expense on any matters within its terms of reference which have been published on the Company's website (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 the two other members are Mr. Fung Chi Kin and Ms. Luan Yue Wen. Four Audit Committee meetings were held during the year ended June 30, 2010 with full attendance. Among other things, the Audit Committee discussed and reviewed financial reporting matters, including our interim and annual consolidated financial statements and reports 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.

Remuneration Committee

The Remuneration Committee undertakes to, among other matters, make recommendations to the Board for the framework or broad policy and structure for the remuneration of the CEO, Chairman, executive directors and senior management of our Group with the objective of ensuring that such persons are provided with appropriate incentives to encourage enhanced performance and to reward individual contributions to the success of our Group. The Remuneration Committee also determines, within the terms of the policy adopted by the Board and in consultation with the Chairman and 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 a nonexecutive 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 have been posted on the Company's websites (www.irasia.com/listco/hk/chaoda and www.chaoda.com.hk).

The Remuneration Committee consists of four members, namely three independent non-executive directors, Mr. Fung Chi Kin as the chairman, Mr. Tam Ching Ho, Ms. Luan Yue Wen and our executive director Mr. Chen Jun Hua. One Remuneration Committee meeting was held during the financial year ended June 30, 2010. At the meetings, the Remuneration Committee reviewed matters relating to the remuneration for the directors and senior management, discussed the remuneration policy and the overall level of increment applicable to our employees.

Nomination of Directors

The Company has not set up a nomination committee and the Board undertakes the role and function of selecting and recommending suitable candidates for directorship.

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.

At the 2010 Annual General Meeting, Dr. Li Yan, Ms. Huang Xie Ying and Ms. Luan Yue Wen, retired from the office as directors by rotation, and being eligible, offered themselves for re-election.

Directors' Interests

As of March 31, 2011, the interests of the directors of our Group in the shares of the Company as recorded in the register which were required to be kept under section 352 of the Securities and Futures Ordinance, or as otherwise notified to Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of director	Number of shares held	Percentage
Mr. Kwok Ho(1)	643,092,644	19.23%
Mr. Chan Chi Po, Andy	103,528	0.00%

(1) Mr. Kwok Ho holds 642,064,644 of his shares through Kailey Investment Ltd., which he wholly owns.

Share Option Scheme

We adopted a share option scheme (the "Scheme") on June 19, 2002 and it is due to expire June 18, 2012. Eligible participants of the scheme include all directors, employees, individuals on secondment with us, any holder of our securities, and business partners, providers of advisory or support services, suppliers, customers, licensees and licensors, and our landlords and tenants. At the time of the Scheme's adoption, the maximum number of shares permitted to be granted was 10% of our then-issued share capital. The maximum was refreshed in February 2006, and as of December 31, 2010, 171.9 million share options granted under the Scheme remain unexercised and outstanding. See note 21 to our financial statements as of and for the six months ended December 31, 2010, included elsewhere in this document.

During the six months ended December 31, 2010, we had granted 71,650,000 share options under the Scheme to eligible grantees, including directors of the Board and certain employees, and as of December 31, 2010, 171,912,588 share options were outstanding. The following table sets forth certain information about share options granted pursuant to the Scheme:

	Year ended June 30,						Six months ended December 31,	
	2008		2009		2010		2010	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at July 1	216,835,950	3.073	202,730,763	3.041	210,369,088	3.035	101,143,928	2.284
Granted during the period	—	—	27,100,000	4.000	—	—	71,650,000	6.430
Adjusted upon bonus issue	2,666,887	—	9,073,170	—	—	—	—	—
Exercised during the period	(16,772,074)	2.967	(28,413,345)	3.369	(103,359,560)	3.749	881,340	3.837
Lapsed during the year	—	—	(121,500)	3.990	(5,865,600)	3.387	—	—
Outstanding at June 30	202,730,763	3.041	210,369,088	3.035	101,143,928	2.284	171,912,588	4.004
Exercisable at June 30	115,550,463	2.448	146,671,272	2.739	74,190,248	1.720	142,828,708	3.988

PRINCIPAL SHAREHOLDERS

As of March 31, 2011, according to the register we maintain in accordance with Section 336 of the Securities and Futures Ordinance, the following parties, other than our directors, were directly or indirectly interested in 5% or more of our issued share capital.[(1)]

Name of shareholder	Capacity	Number of shares held	Percentage of issued share capital
Kailey Investment Ltd.[(2)]	Beneficial owner	642,064,644	19.20%
Deutsche Bank Aktiengesellschaft	Beneficial owner, investment manager, person having a security interest in shares, custodian corporation/approved lending agent	366,789,183	10.98%
Janus Capital Management LLC	Investment manager	267,667,574	8.01%
Blackrock, Inc.	Interest of controlled corporation	213,530,753	6.39%
UBS AG	Beneficial owner, person having a security interest in shares, interest of controlled corporation	178,907,015	5.36%
Morgan Stanley	Interest of controlled corporation	168,355,924	5.04%

(1) All interests in these shares are long positions.

(2) 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.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

As a listed company on The Stock Exchange of Hong Kong Limited, we are subject to the requirements of Chapter 14A of the Listing Rules which require certain "connected transactions" with "connected persons" be approved by a company's independent shareholders. Each of our related party transactions disclosed hereunder that constitutes a connected transaction within the meaning of the Listing Rules requiring shareholder approval has been so approved, or otherwise exempted from compliance under Chapter 14A of the Listing Rules.

Major Related Party Transactions

The table below sets forth our related party transactions for the periods indicated.

	Year Ended June 30,			Six months ended December 31,
	2008	2009	2010	2010
	(RMB in thousands)			
Purchase of organic fertilizers from Fujian Chaoda Agricultural Produce Trading Company Limited	530,310	661,351	667,554	310,843
Compensation paid to key management personnel				
Fee, salaries and other emoluments	6,845	10,042	10,870	4,792
Retirement benefit scheme contributions	44	44	44	21
Employee share option benefits	3,324	34,069	234	30,810
Total	540,523	705,506	678,702	346,466

From time to time we enter agreements to purchase organic fertilizer from Fujian Chaoda Trading, a company of which Mr. Kwok Ho, our Chairman and principal shareholder, is a major shareholder. Such transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules and are subject to independent shareholder approval.

The organic fertilizer agreements we enter into with Fujian Chaoda Trading normally have a term of three years and are subject to annual caps. Our last agreement with Fujian Chaoda was dated May 15, 2009 and approved by our independent shareholders at a meeting on June 26, 2009. Under this agreement, the prices of our organic fertilizer purchases are to be agreed upon when we place an order with Fujian Chaoda Trading and may not exceed the ex-factory price (net of delivery costs) at which the same type of organic fertilizer is supplied by Fujian Chaoda Trading to independent third parties at the time the order is placed. The annual maximum aggregate value of our purchases under the agreement is RMB870.0 million, RMB1,080.0 million and RMB1,350.0 million for the years ended June 30, 2010, 2011 and 2012, respectively.

For the years ended June 30, 2008, 2009 and 2010 and the six months ended December 31, 2010, our annual total purchases of organic fertilizer from Fujian Chaoda Trading amounted to RMB530.3 million, RMB661.4 million, RMB667.6 million, and RMB310.8 million, respectively which was within the annual cap as approved by our independent shareholders.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing business operations and to finance our working capital requirements, we have borrowed money or incurred indebtedness from various banks. As of December 31, 2010, we had no bank borrowings. We set forth below a summary of the material terms and conditions of these loans and other indebtedness.

Working Capital Facility

We have an aggregate of RMB70 million (US$10.6 million) available under a working capital facility with a bank in the PRC, which had not been utilized as of December 31, 2010. Fuzhou Chaoda is the guarantor sharing joint and several liability with the debtor party with respect to this working capital facility. The working capital facility is uncommitted and is repayable on demand.

2010 Convertible Bonds

On September 1, 2010, we issued an aggregate principal amount of US$200.0 million 3.7% secured guaranteed convertible bonds due 2015, or the 2010 Convertible Bonds. The 2010 Convertible Bonds will mature on September 1, 2015. As of March 31, 2011, US$200.0 million of the 2010 Convertible Bonds are outstanding.

Conversion

The 2010 Convertible Bonds are, at the option of the holders, convertible at any time during the conversion period (being the period from the 41st day after the issue date of the 2010 Convertible Bonds up to close of business on the 10th day prior to the maturity date of the 2010 Convertible Bonds, or, if such 2010 Convertible Bond is called for redemption by us before September 1, 2015, up to the close of business on a date no later than seven days prior to the date fixed for redemption or if notice requiring redemption has been given by the holder, up to the close of business on the day prior to the giving of such notice) into our fully paid ordinary shares with a par value of HK$0.10 each at an initial conversion price of HK$8.10 per share with a fixed exchange rate of HK$7.7728 to US$1.00. The conversion price is subject to adjustment for, among other things, consolidation, subdivision or reclassification of shares, capitalization of profits or reserves, capital distributions, rights issues of shares or other securities or options over shares, issues of shares or other securities at less than the current market price, or a change of control of our Company.

Cash Settlement Option

At any time when we are required to deliver shares upon conversion of the 2010 Convertible Bonds, we have the option to pay to the relevant holder an amount of cash in U.S. dollars equal to the applicable Cash Settlement Amount (as defined below) in order to satisfy such conversion right in full or in part (and, if in part, in which case the other part shall be satisfied by the delivery of shares) (the “Cash Settlement Option”). “Cash Settlement Amount” means the product of (i) the number of shares otherwise deliverable upon exercise of the conversion right in respect of the 2010 Convertible Bonds, and in respect of which we have elected the Cash Settlement Option and (ii) the arithmetic average of the volume-weighted average price of shares on The Stock Exchange of Hong Kong Limited for each day during the 10 trading days immediately after the date on which we elect to exercise the Cash Settlement Option.

Redemption at the option of holders

On September 1, 2013, the holder of each 2010 Convertible Bond will have the right, at such holder’s option, to require us to redeem, in whole or in part, such holder’s 2010 Convertible Bond at its principal amount, together with any accrued but unpaid interest to the date of redemption. In the event that the shares cease to be listed or admitted to trading or suspended from trading for a period equal to or exceeding 60 consecutive days on The Stock Exchange of Hong Kong Limited or any alternative stock exchange if applicable, or there is a change of control of our Company, the holder of each 2010 Convertible Bond will have the right, at such holder’s option, to require us to redeem, in whole or in part, such holder’s 2010 Convertible Bond at its principal amount together with interest accrued.

Redemption at our option

On giving not less than 30 nor more than 60 days' irrevocable notice to the holders and the trustee of the 2010 Convertible Bonds, we may at any time after September 1, 2012, redeem in whole but not in part, the 2010 Convertible Bonds at their principal amount together with interest accrued to the date of redemption, provided that the closing price for each of 20 out of 30 consecutive trading days, the last of which occurs not more than five trading days prior to the date upon which notice of such redemption is published, was at least 130% of the prevailing conversion price. We may also at any time redeem in whole but not in part, the 2010 Convertible Bonds at their principal amount together with interest accrued to the date of redemption, provided that prior to the date of such notice, at least 90% in principal amount of the 2010 Convertible Bonds originally issued has already been converted, redeemed or purchased and cancelled. If there shall occur an event giving rise to a change in the conversion price during any such 30 trading day period, appropriate adjustments for the relevant days will be made.

Redemption on change of control

Upon the occurrence of certain events of change of control of our Company, the holder of each 2010 Convertible Bond will have the right to require us to redeem all or only some of such holder's 2010 Convertible Bonds at their principal amount together with interest accrued. A change of control of our Company that would grant a 2010 Convertible Bond holder the right to require us to redeem includes (i) any entity (other than Mr. Kwok Ho and Kailey Investments Ltd or any of their affiliates) acquiring control of our Company or (ii) our Company consolidating or merging with another entity or selling all or substantially all of our assets to another entity, unless the consolidation, merger, sale or transfer will not result in the other entity acquiring control of our Company or our Company's successor. "Control" under this provision means the acquisition or control of more than 50% of the voting rights of the issued share capital of our Company or the right to appoint and/or remove all or the majority of the members of our board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

Guarantee

Each of Chaoda Vegetable & Fruits Trading Limited, Insight Decision Limited, Timor Enterprise Limited, Worthy Year Investments Limited and Chaoda Vegetable & Fruits Limited, all of which are our subsidiaries, has unconditionally and irrevocably guaranteed, on a joint and several basis, the due payment of all sums expressed to be payable by us, and the performance of all the obligations of us, under, among other things, the trust deed constituting the 2010 Convertible Bonds and the 2010 Convertible Bonds.