



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

#### Financial Review

For the six months ended 31 December 2004, turnover and profit for the period of the Group amounted to approximately RMB1,052,632,000 and RMB659,423,000 respectively, representing an increase of 22.6% and 63.8% as compared to the same period last year. Sales of crops has increased in volume from 319,600 tonnes to 407,821 tonnes.

#### Production Bases

The aggregate area of the Group's farmland (excluding mountain area) in the PRC increased from 140,487 mu (9,366 hectares) as at 31 December 2003 to 171,889 mu (11,459 hectares) as at 31 December 2004, representing an increase of 22.4%. It also represented an increase of 9.9% as compared with 156,439 mu (10,429 hectares) as at 30 June 2004.

The weighted average production area for crops increased from 103,229 mu (6,882 hectares) as at 31 December 2003 to 137,738 mu (9,183 hectares) as at 31 December 2004, representing an increase of 33.4%. It also represented an increase of 23.2% as compared with 111,835 mu (7,456 hectares) as at 30 June 2004. The Group in total operated more than 30 production bases covering different provinces and cities in China.

#### Sales Performance

Growing and sales of crops for the six months ended 31 December 2004 accounted for 93.2% of total turnover, while breeding and sales of livestock and supermarkets chain operation accounted for 2.1% and 4.7% respectively. Except for the shrink of supermarkets chain operation, there had not been any material change to the sales mix by product.

Domestic sales of crops represented 69.5% for the six months ended 31 December 2004 while export sales of crops took up the remaining 30.5%. There had not been any material change to the sales mix by market.

The gross profit margin in the growing and sales of crops, being the principal business of the Group, was 68.8%. There had not been any material change as compared to the same period last year of 69.5%. The overall gross profit margin of the Group was 65.9% as compared to the same period last year of 65.3%. The slight increase in the overall gross profit margin of the Group was attributable to the shrink in supermarkets chain operations that are of lower gross profit margin than that of the growing and sales of crops.

Selling and distribution expenses and general and administrative expenses for the six months ended 31 December 2004 represented approximately 10.6% and 4.9% respectively, as compared to the same period last year of 9.7% and 5.9% respectively. The percentage change in the selling and distribution expenses was attributable to higher distribution and packaging costs incurred in relation to increase in sales of crops through institutional channels (mainly hypermarkets) which demands for more sophisticated packaging on delivery. The decrease in the general and administrative expenses was attributable to the serious financial management and the attitude of treasuring the Group's financial resources by the management of the Group.



The pre-tax profit margin for the six months ended 31 December 2004 was 62.7%, as compared to the same period last year of 46.9%. Net profit margin was 62.6%, as compared to the same period last year of 46.9%. The increase in pre-tax profit margin and net profit margin of the Group was attributable to gain arising from change in fair value less estimated point-of-sale cost of biological assets upon adoption of the SSAP 36 "Agriculture" which was adopted the first time during the period under review. Except the share of taxation attributable to an associated company, there was no other tax provision made during the period.

### **Other Operating Data**

For the six months ended 31 December 2004, the other operating data relating to the Group's principal business of growing and sales of crops include the yield per mu of 2.96 tonnes and the yield per mu per harvest of 1.86 tonnes as compared to the same period last year of 3.10 tonnes and 1.79 tonnes respectively. The average sales unit price per kg was RMB2.41 as compared to the same period last year of RMB2.42. There had not been any material change in other operating data during the period under review.

## **PROSPECTS**

In the No. 1 Document issued in the beginning of 2004, and as set out in the recent government work report, the importance of the "peasants, rural villages and agricultural industry" issues were recognized. Under the favorable State policies, and near to its final stage of WTO negotiation, China agricultural industry will under pressure of having increasing number of industry players who compete with one another for the ecologically grown agricultural industry along with overseas agricultural produce of high quality at low price. As one of the pioneers in the ecological grown agricultural industry in the PRC, Chaoda will capitalize on market opportunities, to proactively expand its enterprise scale in a steady manner, promotes its brand influence internationally and strengthens the Group's leading position in the PRC's agricultural industry.

In respect of the production base expansion strategy, Chaoda will grasp the opportunity to establish production bases in those provinces or cities with high economic growth and ecologically-friendly environment. This helps to meet the ever-increasing demand of ecological grown, green and healthy vegetable and fruits of those provinces and cities. Besides, Chaoda will give priority to develop its production bases nearby those existing ones, to strength our production capacity of existing production bases so as to fulfill the demand from processing plants of agricultural produce; Chaoda will progressively explore opportunity to expand operations into middle to downstream vegetable sector so as to add value to the agricultural produce.

## **POLICIES AND PERFORMANCE ON COMMUNITY, SOCIAL, ETHICAL AND REPUTATIONAL ISSUES**

The Group endeavours to continually follow closely with the agriculture policy of the PRC, and will always be considerate for the rights and benefits of the peasants. Leveraging on the unique business philosophy and model of Chaoda, the peasants can be benefited through the enterprise behaviour in operating in the agricultural industry. Standardization of processes in modern agriculture helps to improve the planting technique of the peasants, to increase rural income and to help the stabilization of rural villages. To show our ongoing concern of the peasants, Chaoda have set January of every year as "The Month for the Peasants".