



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 agriculture 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 endeavors 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".



Furthermore, many producers in the PRC are facing agricultural produce-related safety problems, such as poison rice, exceedance of pesticide residue on vegetables; while in the developed countries, much concern is placed on the issue of agricultural produce and health. Agricultural produce safety and agricultural produce and health clearly show us the different levels of requirement for agricultural produce quality in the market. Amidst such a mainstream environment in the PRC, Chaoda successfully set a right direction from the beginning: "Take Green Road, Create Ecological Civilisation". In these few years, we have established a comprehensive quality control system for agricultural produce, realizing unpolluted control of agricultural produce along the entire process from cultivation to consumption and creating a "Green and Organic Ecological Industrial Chain".

As Chaoda strives to become one of the world-class recognized brands, we consider ourselves responsible for raising rural incomes. We strive to become the role model of being the most competitive supplier of agricultural produce in China, so as to promote the international reputation and image of the PRC's agricultural produce.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has maintained a solid financial position to underpin its operation. As at 31 December 2004, the Group had cash and bank balances amounting to RMB807,663,000. The Group generated strong cash flows from operations for the six months ended 31 December 2004. Net cash flow from operations for the period was RMB587,049,000 as compared to RMB400,802,000 for the same period last year.

As at 31 December 2004, the Group's gearing ratio was 3.7%. This is based on the division of total borrowings by total assets. The Group's current ratio was 5.0 times, reflecting the presence of sufficient financial resources.

Since the exchange rate fluctuations between the Hong Kong dollar or United States dollar and Renminbi are immaterial, the foreign exchange risk is immaterial and no hedging has been carried out.

As at 31 December 2004, the Group had outstanding capital commitments amounting to RMB407,924,000, of which, commitments of RMB258,627,000 are contracted but not provided for, the remaining commitments of RMB149,297,000 have been authorised but not contracted for, in respect of the purchase of fixed assets and research and development expenditure.

As at 31 December 2004, a corporate guarantee executed by a subsidiary was pledged by the Group as the security for short-term loans. Save as disclosed above, the Group did not have any material contingent liabilities.

## STAFF AND REMUNERATION POLICIES

### Remuneration Policy for Employees

As at 31 December 2004, the Group employed 11,638 employees, of which 9,847 were workers on the Group's farmlands. Employees' salaries are determined at a competitive level. They are eligible for various components of total remuneration by reference to their duties and responsibilities with the Group and the market rate. These components include basic salaries, discretionary bonus and share option. Other employee benefits mainly include pension arrangements, insurance, education subsidies and training programmes.