



Chaoda Modern Agriculture 超大現代農業

2005/2006 Annual Results

2006



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Chaoda Modern Agriculture 超大現代農業

Financial Highlights for 2005/2006FY (For the year ended 30 June 2006)

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Results Summary

Significant increase in sales by 25%, operating profit by 24% (excluding exceptional items) and net profit by 11% (excluding exceptional items)

<i>(RMB million)</i>	Including Exceptional Items			Excluding Exceptional Items		
	2006FY	2005FY	% Change	2006FY	2005FY	% Change
Sales	2,798	2,238	25%	2,798	2,238	25
Gross profit	1,894	1,509	26%	1,894	1,509	26
EBITDA	1,662	1,397	19%	1,509	1,221	24
Operating profit	1,486	1,252	19%	1,333	1,076	24
Exceptional items						
- Gain arising from adoption of HKAS41	153	176				
- Deemed loss on diluting the interest in associates	(38)	-				
Profit attributable to shareholders	1,358	1,298	5%	1,243	1,122	11
Earning per share						
- Basic (RMB cents)	57	55	4%	53	48	10
- Diluted (RMB cents)	56	54	3%	51	47	9



* Adjusted by the gain arising from adoption of HKAS41

Sales and Gross Margins

Core business of crops accounted for 96% of total business with a gross margin of 68%

<i>(RMB million)</i>	Sales		Change	Gross Margin	
Segment Breakdown	2006FY	2005FY	%	2006FY	2005FY
Crops	2,698	2,113	28	69%	70%
Livestock	41	41	0	65%	68%
Supermarkets	59	84	(30)	8%	9%
Total	2,798	2,238	25	68%	67%



Main Profitability Benchmarks

<i>(RMB million)</i>	2006FY	2005FY	% Change
EBITDA*	1,509	1,221	24
EBITDA margin	54%	55%	
Depreciation & amortization	229	169	36
EBIT*	1,280	1,053	22
EBIT margin	46%	47%	
Net profit*	1,243	1,122	11
Net profit margin	44%	50%	

* : *Excluding exceptional items*

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Cash Flow Summary

Cash Flow Summary	2006FY	2005FY	Change
	RMB mn	RMB mn	%
Cash & cash equivalents at 1 July	1,449	944	53
Cash generated from operations	1,509	1,230	23
Net cash used in investing activities	(1,810)	(1,822)	(1)
Free cash flow	(301)	(592)	(49)
Dividend paid, finance cost, interest income & changes in exchange rates	(420)	(252)	67
Net cash inflow from financing activities	1,886	1,349	40
Cash & bank balances at 30 June	2,614	1,449	80



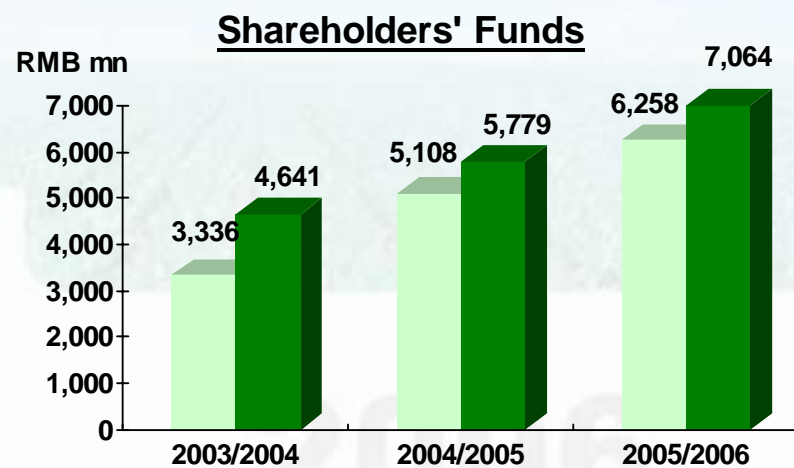
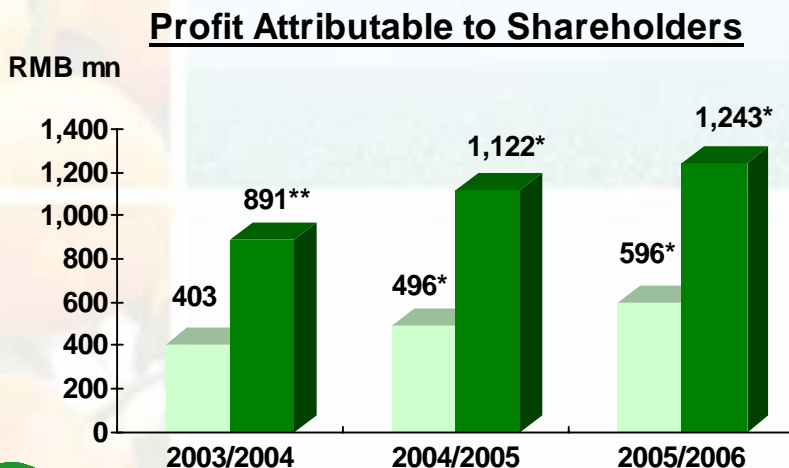
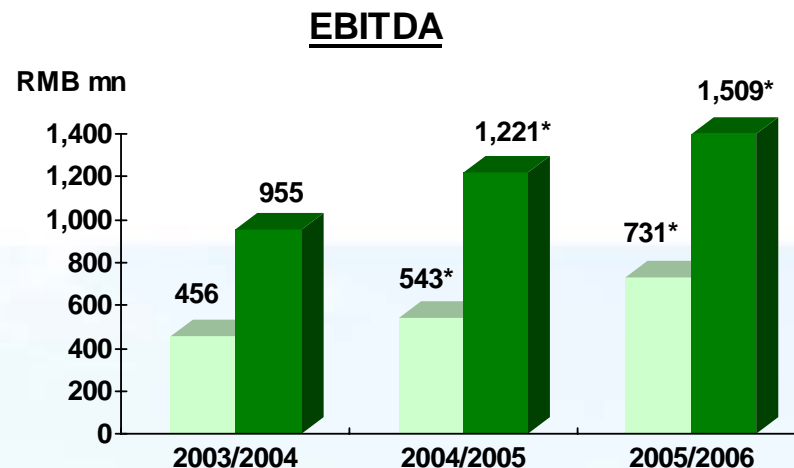
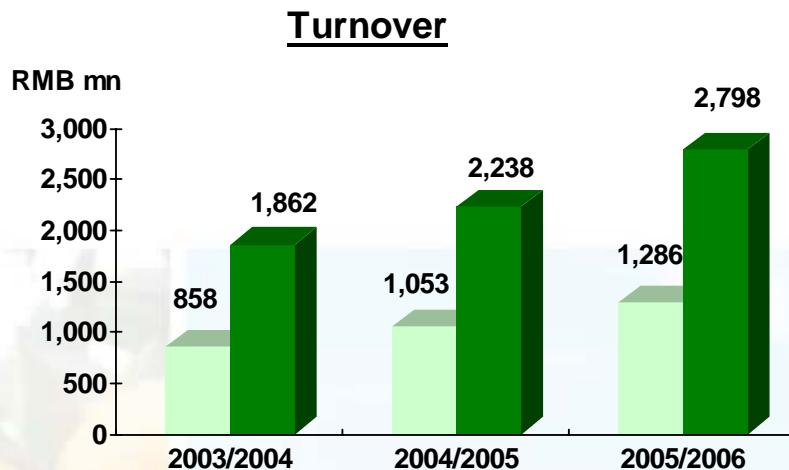
Balance Sheet At-A-Glance

<i>(RMB million)</i>	30/6/2006	30/6/2005	% Change
Fixed assets	2,244	1,867	20
Construction-in-progress	771	466	65
Prepaid premium for land lease	2,653	1,864	42
Biological assets	432	282	53
Interests in associates	594	411	45
Other long-term assets	212	161	32
Net current assets	3,347	2,574	30
Non-current liabilities	3,184	1,841	73
Net assets	7,069	5,784	22



Turnover and Profit Trends

■ Interim
■ Annual



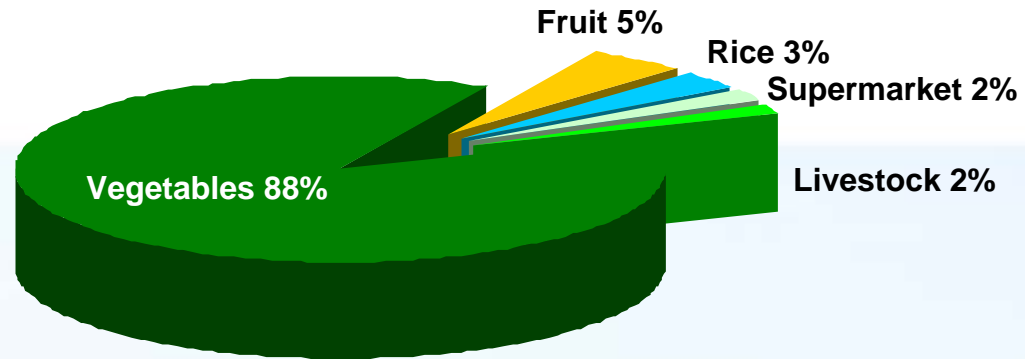
* : Excluding exceptional items

** : Excluding written back of tax provision in prior years

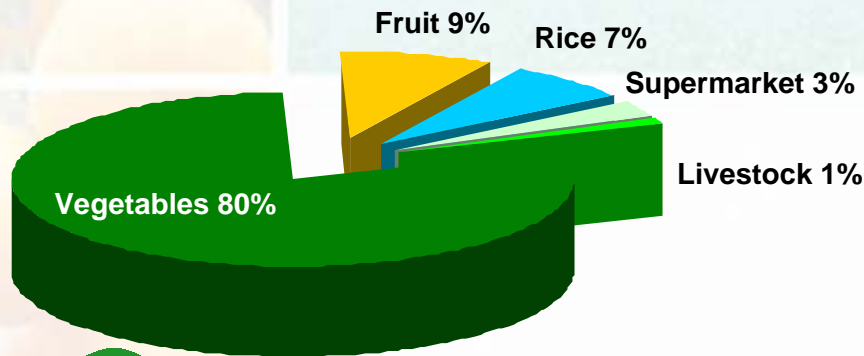


Turnover by Segment

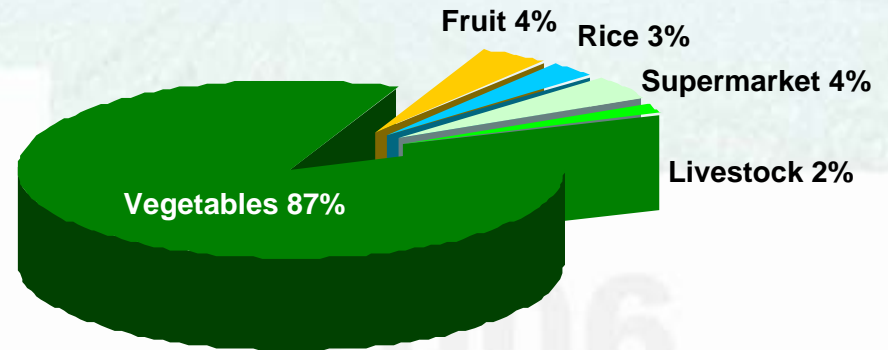
2006FY



1H 2006FY



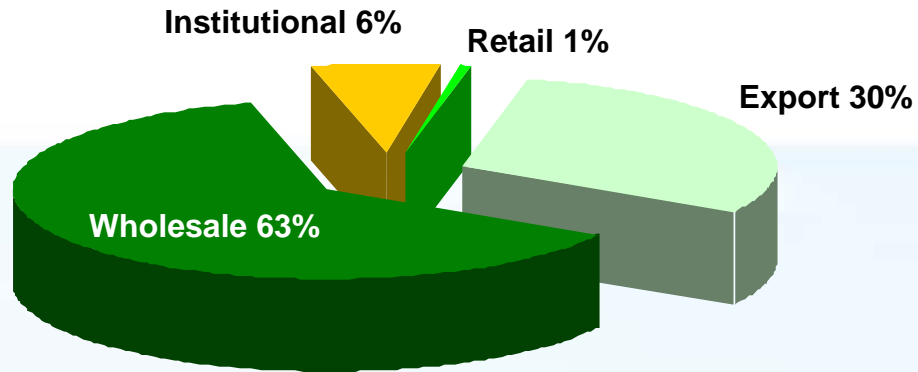
2005FY



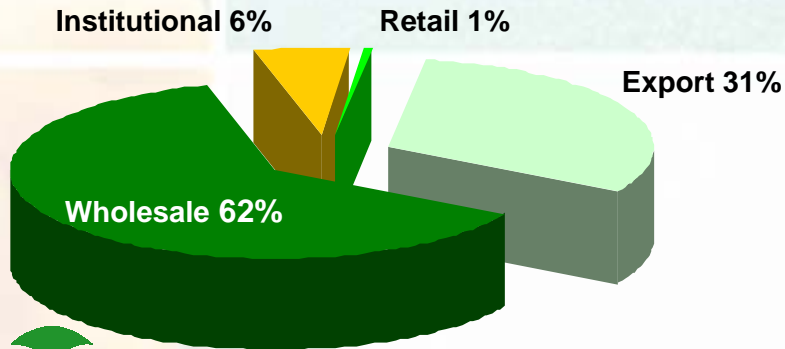
Turnover by Channel

CROPS ONLY

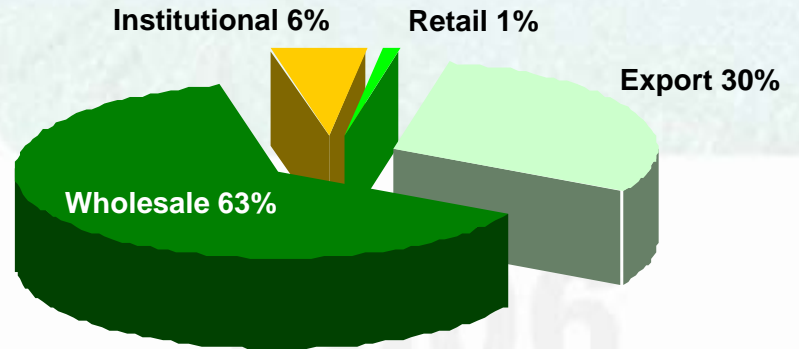
2006FY



1H 2006FY



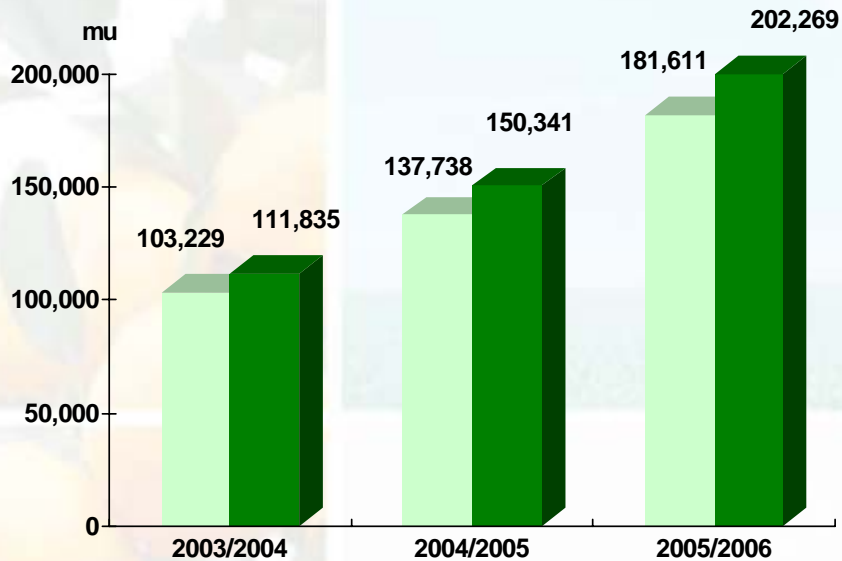
2005FY



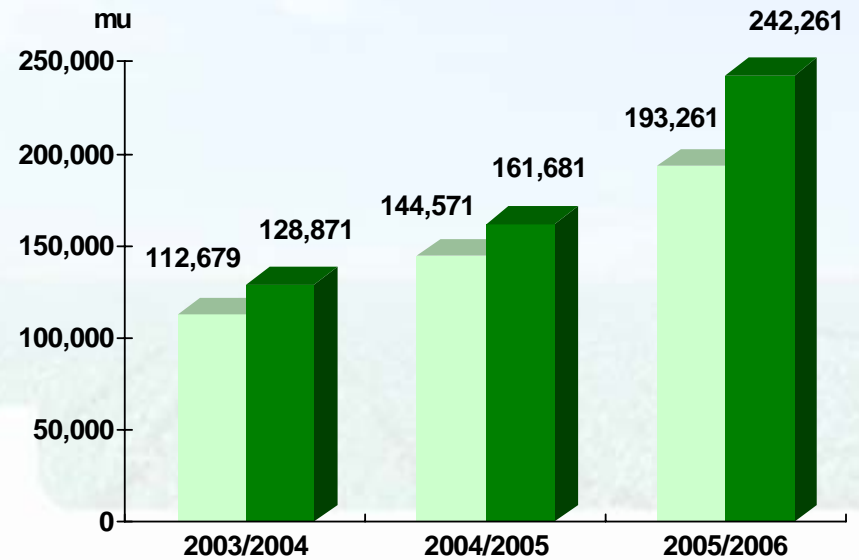
Production Areas

- Interim
- Annual

Weighted Av Production Area for Vegetables



Total Production Area for Vegetables

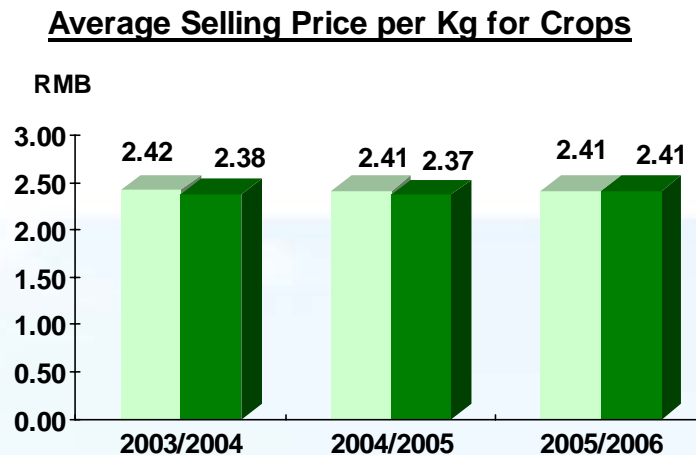
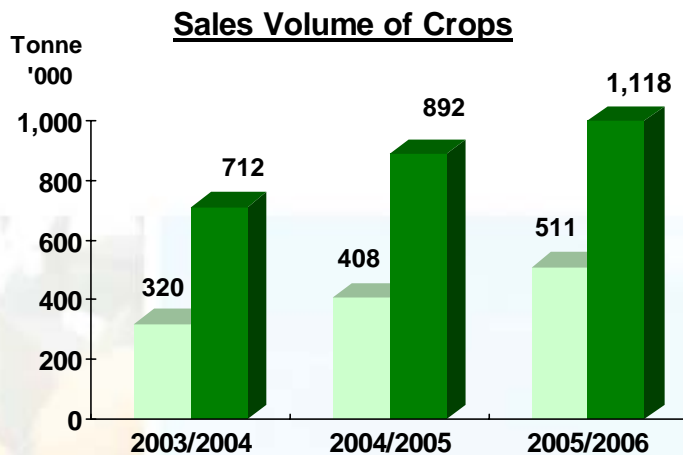


2006

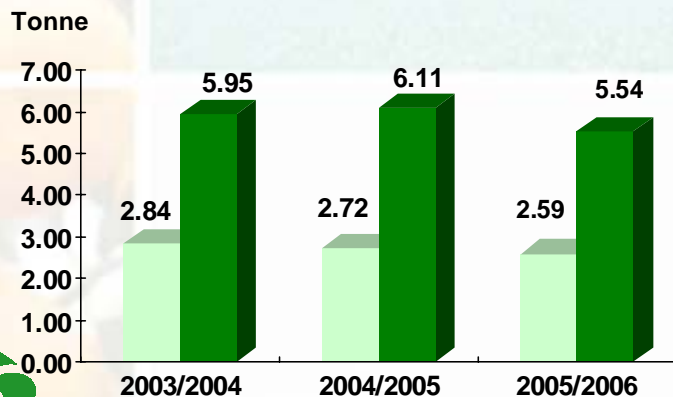


Production Volume, Selling Price and Yield

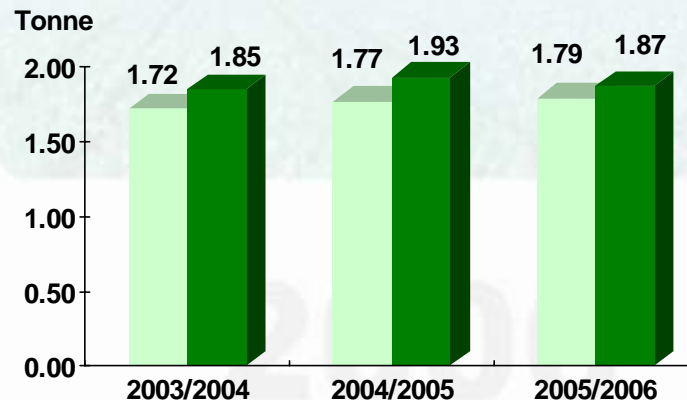
■ Interim
■ Annual



Annual Yield per Mu for Vegetables



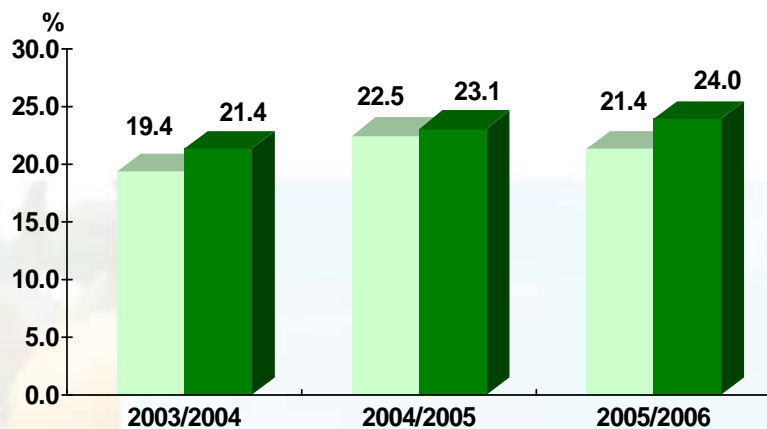
Yield per Mu per Harvest for Vegetables



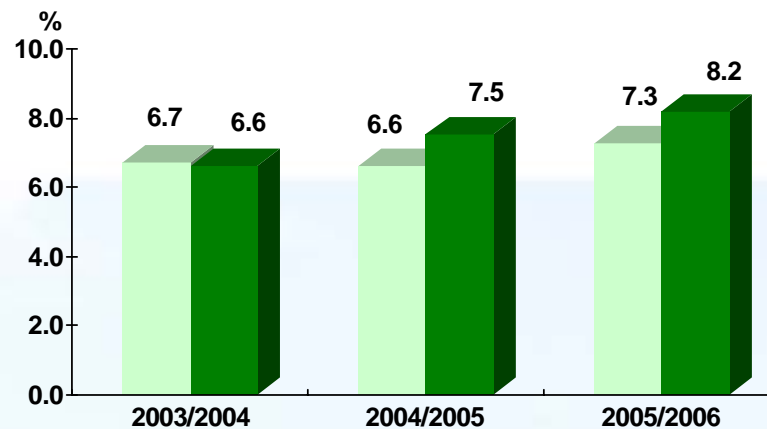
Expense Ratios

■ Interim
■ Annual

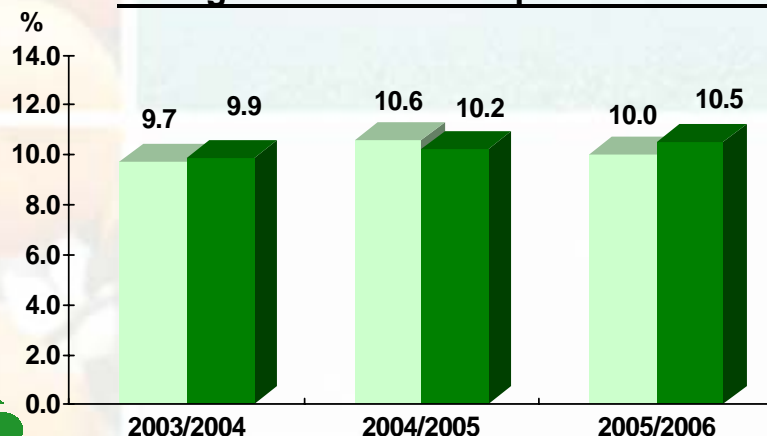
Total Oper. Exp. as % of Sales



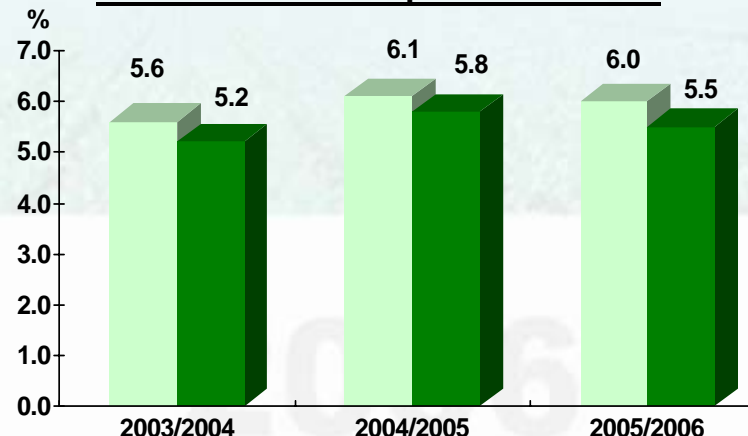
Depre. & Amort. as % of Sales



Selling & Distribution Exp. as % of Sales



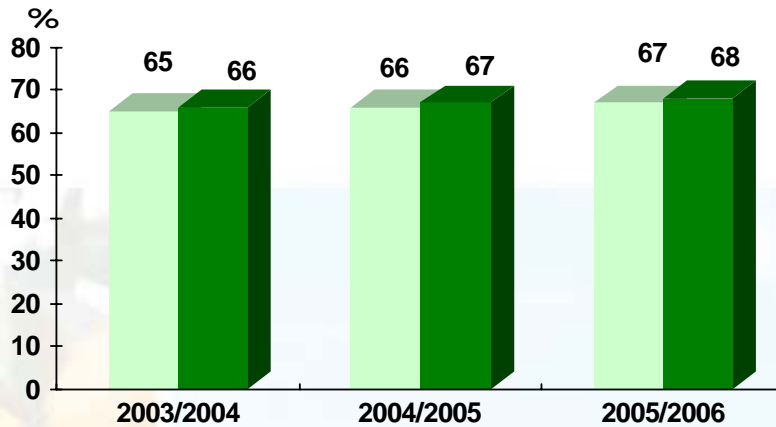
General & Adm. Exp. as % of Sales



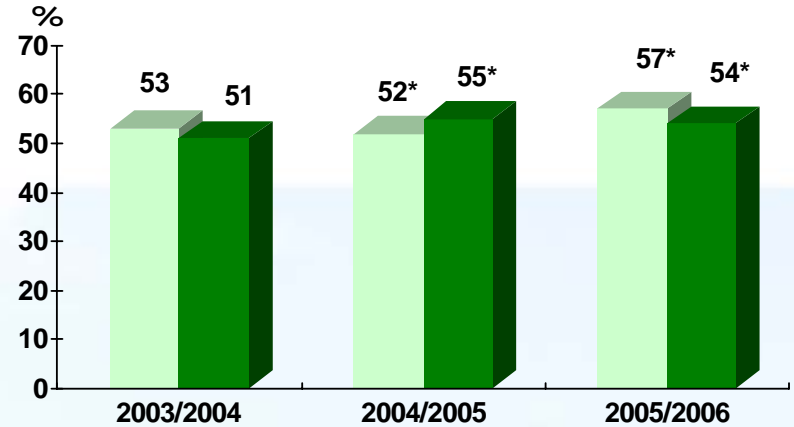
Profit Margins and ROE

■ Interim
■ Annual

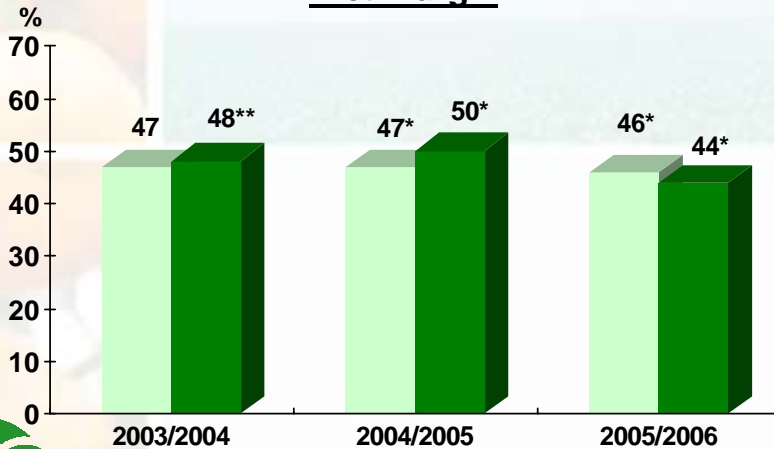
Gross Margin



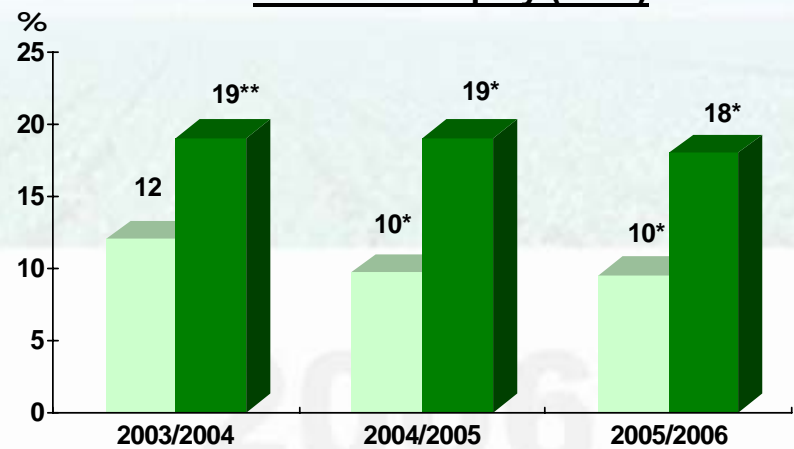
EBITDA Margin



Net Margin



Return on Equity (ROE)



* : Excluding exceptional items

** : Excluding written back of tax provision in prior years





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Market and Business Review

2006



Review of China's Vegetable Market

- In 2005, the total area of vegetable production in China was 17.74 million hectares, an increase of 0.18 million hectares or 1%, compared with 2004.
- The total production of vegetables in China in 2005 was 562.8 million tons, an increase of 2.2% over 2004.
- In 1H 2006, vegetable exports continued to grow, with total exports of 3.36 million tons, an increase of 4.75%. Sales were US\$2.46 billion, an increase of 19.64%.
 - Japan adopted a new import standard for agriculture products, the Positive List System for chemical residuals, in May 2006. The exports of China's vegetable products to Japan declined by 2.03% yoy.
 - Exports to the other major markets increased steadily.
- The government launched various measures to tackle the “three issues related to agriculture industry, rural area and farmers”, including rescinding the agricultural tax, as well as relief from other charges, the increase of agricultural investment, and infrastructure construction.

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Strong Growth in Chaoda's Core Business

- During the year, Chaoda's management followed the Group's growth strategy and successfully expanded our production bases accordingly. As a result, the company achieved outstanding financial performance. Benefited from the stringent quality control system, the export business of Chaoda continued to grow in volume.
- The Group accelerated its land expansion after the 2005 Bond issuance. The total production land area and weighted average production area for vegetables reached 278,056 mu and 202,269 mu, an increase of 48% and 35% respectively from the same period last year, mainly in the following provinces:
 - A total area of 28,000 mu was developed in Shaanxi province
 - A total area of 20,000 mu was developed in Jilin province
 - A total area of 23,580 mu was developed in the Yangtzi river area (including Hubei, Hunan and Jiangsu province)
 - A total area of 13,000 mu was developed in Hebei province including Beijing and Tianjin

2006



Key Achievements

- The World Brand Laboratory ranked Chaoda among “China’s 500 Most Valuable Brands” for the third year in a row with an estimated brand value of RMB4.625 billion. Chaoda’s ranking substantially improved to 124 from 177 in 2005 and 220 in 2004, and remained as the leading brand in China’s agricultural industry.
- Chaoda was selected as "2006 China’s Top 500 Competitive Large Enterprise Group" issued by the National Bureau of Statistics. Chaoda’s brand has been widely recognized by the government and industry.
- Chaoda was awarded “2006-2007 Famous Export Brand sponsored by Fujian Provincial Foreign Trade and Economic Cooperation Department”.
- Chaoda was awarded “China’s Famous Brand of Agricultural Products” by the Ministry of Agriculture.

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Chaoda Modern Agriculture 超大現代農業

Industry and Business Outlook

2006



Industry Outlook (1)

- At the 5th session of the 16th Plenary Meeting of the PRC Communist Party held in October 2005, “The proposal on the 11th five-year plan for national economic and social development formulated by the PRC Communist Party” has been reviewed and passed, with an emphasis on the important task of “building a new socialist countryside”.
- With the “New Socialist Countryside” strategy and the support from the government, the agricultural industry is entering a phase of consolidation and rapid growth.
- The governments at all levels will make great efforts to encourage and support the leading agricultural enterprises to facilitate the progress of industrialization, scale production and standardization.

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Industry Outlook (2)

- The government will further strengthen and standardize the quality and safety measures of agricultural products.
 - The "Law of the People's Republic of China on Quality and Safety of Agricultural Products" has been passed and will come into effect on 1 November 2006.
 - The law will provide a strong legal and social framework for the production of green, safe, nutritious and healthy vegetables.
- Production area for vegetables, especially for green and ecological production, will gradually increase. High-value products will become more important.
- Japan will still be China's important export market while exports to other markets such as Southeast Asian countries, South Korea, US and Russia will increase.

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Chaoda's Business Outlook

- In order to grasp this tremendous opportunity, Chaoda issued a HK\$1.334 billion convertible bond in May 2006 to accelerate its land expansion and construction.
- Vegetable and fruit will remain Chaoda's core business. The Group will endeavor to expand its production bases.
 - The group will continually follow the three-year plan (FY2006-2008) of land expansion, with an annual growth rate of around 25-35%.
 - Geographic expansion will focus on more affluent regions, including Beijing-Tianjin-Hebei area, the Northeast area, Yangtze River Area, and Southern China.
- Brand building will continue to be a key strategy. Based on its existing strong corporate brand, Chaoda will strengthen its brand awareness among consumers .
- Adopt a prudent strategy in new businesses such as dairy cattle, tea and trading.

2006





Chaoda Modern Agriculture

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Appendix: Financial Details

2006



Income Statement

<i>[RMB million]</i>	(Audited) <u>2006FY</u>	(Restated) <u>2005FY</u>	% Change
Turnover	2,798	2,238	25
Cost of sales	(904)	(729)	24
Gross profit	1,894	1,509	26
Operating expenses	(672)	(516)	30
Other revenues	112	84	
Operating profit	1,334	1,077	24
Finance costs	(194)	(75)	159
Share of net profit of associates	103	121	(15)
Profit before tax	1,243	1,123	11
Income tax	(0)	(0)	-
Profit after tax	1,243	1,123	11
Minority interests	(0)	(1)	-
Profit attributable to shareholders before exceptional items	1,243	1,122	11
- Gain arising from adoption of HKAP41	153	176	(13)
- Deemed loss on diluting the interest in associates	(38)	-	-
Profit attributable to shareholders after exceptional items	1,358	1,298	5
EPS before exceptional items			
- Basic (RMB)	0.53	0.48	10
- Diluted (RMB)	0.51	0.47	8
EPS after exceptional items			
- Basic (RMB)	0.57	0.55	3
- Diluted (RMB)	0.56	0.54	4

2006



Statement of Net Assets

<i>[RMB million]</i>	(Audited) <u>As at 30 June 2006</u>	(Restated) <u>As at 30 June 2005</u>	<i>% Change</i>
Non-current assets			
Fixed assets	2,244	1,867	20
Construction-in-progress	771	466	65
Prepaid premium for land leases	2,653	1,864	42
Biological assets	432	282	53
Deferred development costs	70	74	(5)
Deferred expenditure	139	80	74
Other long-term deposits	3	7	(57)
Interests in associates	594	411	45
	<u>6,906</u>	<u>5,051</u>	37
Current assets			
Prepaid premium for land leases	91	60	52
Biological assets	452	262	73
Other investment	-	67	-
Inventories	26	22	18
Trade receivables	97	97	-
Other receivables, deposits & prepayments	242	245	(1)
Cash & bank balances	2,614	1,949	34
	<u>3,522</u>	<u>2,702</u>	30
Current Liabilities			
Amount due to a related company	37	16	131
Accounts payable	11	5	120
Other payables & accrued charges	117	91	29
Bank loans - secured	10	17	(41)
	<u>175</u>	<u>129</u>	36
Non-current Liabilities			
Guaranteed senior notes	1,795	1,841	(2)
Convertible bond	1,389	-	-
	<u>3,184</u>	<u>1,841</u>	73
Net assets	<u><u>7,069</u></u>	<u><u>5,783</u></u>	22

Sales Analysis

<u>By Segment</u>	<u>2006FY</u>	<u>2005FY</u>
Crops		
Vegetables	88%	87%
Fruit	5%	4%
Rice	3%	3%
	96%	94%
Supermarket	2%	4%
Livestock	2%	2%
	100%	100%

By Channel (for Crops only)

Domestic		
Wholesale	63%	63%
Institutional sale (including 3rd party supermarket chains)	6%	6%
Retail sale	1%	1%
	70%	70%
Export	30%	30%
	100%	100%



Production Analysis (Crops Only)

	<u>2006FY</u>	<u>2005FY</u>	<u>% Change</u>
Output (Tonnes '000)	1,118	892	25
Average selling price (RMB/Kg)	2.41	2.37	2
Total production base area (Mu)	278,056	188,509	48
Total production base area (Ha)	18,537	12,567	48
Weighted average production area for vegetables (Mu)	202,269	150,341	35
Weighted average production area for vegetables (Ha)	13,485	10,023	35
Yield per mu for vegetables (Tonnes)	5.54	6.11	(9)
Harvest ratio for vegetables (times of harvest/year)	2.97	3.17	(6)
Yield per harvest for vegetables (Tonnes/mu)	1.87	1.93	(3)
No. of species	150+	150+	-
No. of production bases	29	33	(12)
No. of provinces & municipal cities covered	14	12	17

2006



Key Financial Measures

	<u>2006FY</u>	<u>2005FY</u>
<u>Margins and Expenses as % of Turnover</u>		
Gross Margin	68%	67%
Net margin - before exceptional item	44%	50%
Net margin - after exceptional item	49%	58%
Selling & distribution expenses / turnover	10%	10%
General & administrative expenses / turnover	5%	6%
Research expenses / turnover	2%	3%
<u>Financial Ratios</u>		
Inventory turnover period	11 days	11 days
Accounts receivable turnover	13 days	16 days
Current ratio	20	21
Debt / Equity	45%	32%
Debt / EBITDA *	2.1	1.5
EBITDA * / Interest	8	16

* : *Excluding exceptional items*



Production Area by Location

[Unit: Mu (15 mu = 1 hectare)]

Provinces	Weighted Average Production		Total Production Area for	
	<u>2006FY</u>	<u>2005FY</u>	<u>2006FY</u>	<u>2005FY</u>
Fujian	61,190	62,684	83,736	78,769
Jilin	36,667	10,000	40,000	20,000
Jiangsu	31,062	23,557	36,470	24,890
Shaanxi	24,500	17,500	45,500	17,500
Hubei	19,750	16,000	24,000	16,000
Hebei	8,500	2,500	13,500	3,500
Guangdong	4,000	4,000	4,000	4,000
Shandong	3,000	3,000	3,000	3,000
Liaoning	1,100	1,100	1,100	1,100
Zhejiang	2,000	2,000	2,000	2,000
Hunan	1,000	-	4,000	-
Jiangxi	-	-	9,750	9,750
<u>Municipal Cities</u>				
Beijing	4,500	4,000	5,000	4,000
Tianjin	5,000	4,000	6,000	4,000
Total	<u>202,269</u>	<u>150,341</u>	<u>278,056</u>	<u>188,509</u>



Production Area by Business Line

- As at 30 June 2006, Chaoda had 29 production bases in 14 provinces in China, including 21 for vegetables, 2 tea gardens and 6 fruit gardens
- Total production area amounted to 278,056 mu (18,537 Hectares)

	Area (mu)		Percentage of total area		%Change
	2006FY	2005FY	2006FY	2005FY	
Crops land	242,261	161,681	79%	74%	50
Tea garden	12,050	12,050	4%	6%	0
Fruit garden	23,745	14,778	8%	7%	61
Total production area	278,056	188,509	91%	87%	48
Mountain area	29,111	29,078	9%	13%	0
Total area	307,167	217,587	100%	100%	41



Top Five Products Analysis

By Sales Value (按销售额)

- 1 Broccoli (西蘭花)
- 2 Cauliflower (白花菜)
- 3 Cabbage (甘兰)
- 4 Sweet Corn (甜玉米)
- 5 Choi Shum (菜心)

By Sales Volume (按销售量)

- Cabbage (甘兰)
- Cauliflower (白花菜)
- Broccoli (西蘭花)
- Chinese Cabbage (大白菜)
- Rice (稻米)

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Production Base Distribution

As at 30 June 2006

