



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)

FINAL RESULTS FOR THE YEAR ENDED 30TH JUNE 2003

Turnover increased by 29% to RMB1,485 million
Net Profit increased by 17% to RMB725 million
EBITDA increased by 15% to RMB765 million

FINAL RESULTS

The Board of Directors of Chaoda Modern Agriculture (Holdings) Limited (the "Company" or "Chaoda") is pleased to announce the audited consolidated final results of the Company and its subsidiaries (collectively the "Group") for the year ended 30th June 2003, together with the comparative figures for the corresponding period in 2002 as follows:

	Note	2003 RMB'000	2002 RMB'000 (Restated)
Turnover			
Cost of sales	2(a)	1,485,307 (491,517)	1,152,133 (300,176)
Gross profit		993,790	851,957
Other revenue	2(b)	30,088	28,434
Selling and distribution expenses		(139,767)	(104,134)
General and administrative expenses		(94,003)	(56,334)
Research expenses		(53,170)	(46,000)
Other operating expenses	4	(33,369)	(9,142)
Profit from operations		703,569	664,781
Finance costs	5(a)	(15,345)	(6,028)
Share of profits less losses of associates		37,803	19,080
Profit from ordinary activities before taxation	5	726,027	677,833
Taxation	6	(2,838)	(55,959)
Profit from ordinary activities after taxation		723,189	621,874
Minority interests		1,945	50
Profit attributable to shareholders		725,134	621,924
Earnings per share – Basic	7	RMB38 cents	RMB35 cents
Dividends	8	70,857	182,490

Notes:

1. Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants ("HKSA"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The financial statements are prepared under the historical cost convention.

The Group has adopted the following new or revised SSAPs issued by the HKSA which became effective during the current financial year:

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 11 (Revised)	:	Foreign currency translation
SSAP 15 (Revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34 (Revised)	:	Employee benefits

The adoption of these SSAPs has resulted in a change in the format of the presentation of the consolidated cash flow statement and the consolidated statement of changes in equity, but has not had any significant impact on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Unless otherwise stated, the 2002 comparative figures presented herein have incorporated the effect of the adjustments, where applicable, resulting from the adoption of the new accounting standards above.

2. Turnover and other revenue

	2003 RMB'000	2002 RMB'000
(a) Turnover		
Sales of crops	1,358,393	1,128,253
Sales of livestock	24,557	21,356
Sales of ancillary food products	2,264	2,524
Export trading	20,123	—
Supermarkets chain operation	79,970	—
	1,485,307	1,152,133
	2003 RMB'000	2002 RMB'000 (Restated)
(b) Other revenue		
Amortisation of negative goodwill	8,136	8,136
Interest income	16,930	19,202
Sundry income from supermarkets	3,227	—
Others	1,795	1,096
	30,088	28,434

3. Segment information

Analysis of business segment results for the year ended 30th June 2003

	Growing and sales of crops RMB'000	Breeding and sales of livestock RMB'000	Sales of ancillary food products RMB'000	Export trading RMB'000	Supermarkets chain operation RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Sales to external customers	1,363,164	24,557	2,264	20,123	79,970	(4,771)	1,485,307
Cost of sales	(399,895)	(4,088)	(1,588)	(18,763)	(71,954)	4,771	(491,517)
Gross profit	963,269	20,469	676	1,360	8,016	—	993,790
Unallocated items:							
Other revenue							30,088
Selling and distribution expenses							(139,767)
General and administrative expenses							(94,003)
Research expenses							(53,170)
Other operating expenses							(33,369)
Profit from operations							703,569
Finance costs							(15,345)
Share of profits less losses of associates							37,803
Profit from ordinary activities before taxation							726,027
Taxation							(2,838)
Profit from ordinary activities after taxation							723,189
Minority interests							1,945
Profit attributable to shareholders							725,134

Inter-segment revenue represents the sales of fruits & vegetables from the crops segment to the supermarket segment. Sales between business segments are accounted for at competitive market prices charged to unaffiliated customers for similar goods.

Analysis of business segment results for the year ended 30th June 2002

	Growing and sales of crops RMB'000	Breeding and sales of livestock RMB'000	Sales of ancillary food products RMB'000	Total RMB'000 (Restated)
Sales to external customers	1,128,253	21,356	2,524	1,152,133
Cost of sales	(292,305)	(5,982)	(1,889)	(300,176)
Gross profit	835,948	15,374	635	851,957
Unallocated items:				
Other revenue				28,434
Selling and distribution expenses				(104,134)
General and administrative expenses				(56,334)
Research expenses				(46,000)
Other operating expenses				(9,142)
Profit from operations				664,781
Finance costs				(6,028)
Share of profits less losses of associates				19,080
Profit from ordinary activities before taxation				677,833
Taxation				(55,959)
Profit from ordinary activities after taxation				621,874
Minority interests				50
Profit attributable to shareholders				621,924

Growing and sales of crops is the Group's primary business segment. The turnover, operating profit and total assets attributable to this business segment accounted for over 91% of the Group's consolidated totals for the years ended 30th June 2003 and 2002. Consequently, no further segment information by business activity is presented.

The Group's operations are primarily in the People's Republic of China ("PRC") and the Group's sales, gross profit and total assets attributable to other geographical areas are less than 5% of the Group's corresponding consolidated totals for the years ended 30th June 2003 and 2002. Consequently, no segment information by geographical area is presented.

4. Other operating expenses

	2003 RMB'000	2002 RMB'000
Expenses incurred for idle farmlands and maintenance	23,823	8,503
Natural loss of growing crops	2,367	15
Loss on disposal of fixed assets	5,366	—
Others	1,813	624
	33,369	9,142

5. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after (crediting)/charging:

(a) Finance costs

	2003 RMB'000	2002 RMB'000
Interest on bank loans wholly repayable within five years	10,749	3,092
Bank charges	4,596	2,936
	15,345	6,028

(b) Staff costs

	2003 RMB'000	2002 RMB'000
Salaries, wages and other benefits	133,254	100,317
Retirement benefits costs	1,655	645
	134,909	100,962

(c) Other items

	2003 RMB'000	2002 RMB'000
Amortisation of negative goodwill	(8,136)	(8,136)
Auditors' remuneration		
— Current year	4,155	2,446
— Under-provision in prior year	1,269	—
Depreciation of owned fixed assets (net of amount capitalised in inventories)	52,971	17,589
Operating lease expenses		
— land and buildings	50,127	35,529
— motor vehicles	575	431
Amortisation of computer software development cost	19,591	—
Amortisation of deferred development costs	3,150	2,461
Amortisation of long-term prepaid rentals (net of amount capitalised in inventories)	9,078	6,303
Amortisation of deferred expenditure	1,652	—
Research expenses	53,170	46,000
Loss on disposal of fixed assets	5,366	—

6. Taxation

The amount of taxation charged to the consolidated income statement represents:

	Note	2003 RMB'000	2002 RMB'000
PRC income tax	(i)	—	54,483
Hong Kong profits tax	(ii)	—	—
		—	54,483
Share of taxation attributable to an associate	(iii)	2,838	1,476
		2,838	55,959

Notes:

- (i) Fuzhou Chaoda Modern Agriculture Development Company Limited ("Fuzhou Chaoda"), the Group's principal subsidiary, was awarded as "State-Level Agricultural Leading Enterprise" of the nation by the central government of the People's Republic of China (the "PRC") in December 2002. According to the circular Nong Jing Fa 2000 No. 8 and No. 10 jointly issued by Agricultural Ministry, State Development Planning Commission, State Economic & Trade Commission, Ministry of Finance, Ministry of Foreign Trade & Economic Cooperation, People's Bank of China, State Administration of Taxation and Securities Regulatory Commission, domestic PRC State-Level Agricultural Leading Enterprises are entitled to certain tax benefits including full exemption of income tax. These tax benefit will also be applied to other PRC subsidiaries comprising the Group.
- (ii) No provision for Hong Kong profits tax has been made as there is no estimated assessable profits (2002: Nil) for the Company and its subsidiaries operating in Hong Kong during the year.
- (iii) It represents the share of PRC income tax charged on the assessable profits of Lucky Team Biotech Development (Hepu) Limited ("Hepu"), a wholly owned subsidiary of the Group's 49% owned associates. Hepu is a Foreign Investment Enterprise ("FIE") and operates in Guangxi Province, the PRC. The preferential foreign enterprise income tax rate for productive FIE's in this region is 15% up to the year 2010 in accordance with the policy in relation to promoting the economic development of Central and Western China. Hepu is entitled to FIE Tax Holidays in accordance with the relevant tax rules and regulations applicable to FIE in the PRC and the 2 years tax exemption period has been lapsed during the year ended 30th June 2002. Accordingly, Hepu has been subject to a reduced income tax rate of 7.5% for a tax reduction period of 3 years.
- (iv) No deferred tax has been recognised in the financial statements as there has been no material timing differences for tax purposes.

7. Earnings per share

The calculation of the earnings per share is based on the profit attributable to shareholders of RMB725,134,000 (2002: 621,924,000) and the weighted average number of 1,916,769,123 (2002: 1,793,753,000) ordinary shares in issue during the year.

There was no significant potential dilutive ordinary shares in existence for the years ended 30th June 2003 and 2002, therefore, no diluted earnings per share was presented.

8. Dividends

	2003		2002	
	RMB per share	RMB'000	RMB per share	RMB'000
Final, proposed of HK\$0.0349 (2002: HK\$0.090) per ordinary share	<u>0.037</u>	<u>70,857</u>	<u>0.095</u>	<u>182,490</u>

At a meeting held on 21st October 2003, the directors proposed a final dividend of HK\$0.0349 (equivalent to RMB0.037) per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits in the financial statements for the year ended 30th June 2004.

9. Reserves

During the year, the amount transferred from retained profits to other reserves comprise of:

	2003 RMB'000	2002 RMB'000
Transfer to statutory common reserve	<u>3,487</u>	53,743
Transfer to statutory welfare reserve	<u>—</u>	<u>—</u>

According to PRC rules and regulations and the Articles of Association of the Group's respective PRC subsidiaries:

Domestic enterprises are required to transfer 10% and 5% of its profits after tax to statutory common reserve and statutory welfare reserve respectively. The transfer to the statutory common reserve is required until it aggregates to 50% of their respective registered share capital.

FIEs are required to transfer 10% of its profits after tax to statutory common reserve. The transfer to the statutory common reserve is required until it aggregates to 50% of their respective registered share capital.

DIVIDENDS AND OTHER DISTRIBUTION

The Board of Directors has recommended the payment of a final dividend of RMB0.037 per share (approximately equivalent to HK\$0.0349 per share) for the year ended 30th June 2003, together with a Bonus Issue of shares of HK\$0.1 each, on the basis of one share for every twenty shares held by the shareholders registered as such on the register of members of the Company on 19th December 2003 (including those with registered addresses outside Hong Kong) (2002: RMB0.095 per share (approximately equivalent to HK\$0.090 per share)), subject to shareholders' approval at the forthcoming annual general meeting to be held on 19th December 2003, to the shareholders whose names appear on the Register of Members of the Company on 19th December 2003 and payable and distributable on or before 30th January 2004. No interim dividend was declared for the six months ended 31st December 2002 (2001: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 15th December 2003 (Monday) to 19th December 2003 (Friday), both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the final dividend and bonus shares, all completed transfer forms together with the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, namely, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 12th December 2003 (Friday).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's turnover and profits attributable to shareholders for the year ended 30th June 2003 was approximately RMB1,485,307,000 and RMB725,134,000 respectively, representing an increase of 28.9% and 16.6% respectively, as compared to those of last year.

In the winter of 2002, China experienced the severest cold in the recent 50-odd years. There were frosts and snows even in Guangdong and Fujian Provinces. Large proportions of crops seedlings were damaged or extended their growth cycle for more than 20 days. It affected the quantity of the crops yield of all the market players of agriculture industry. In the spring of 2003, the outbreak of SARS has adversely affected the operation of restaurants and the catering industry, which in turn affected their demand on our produce. It also brought transportation to a halt, thus dragging exports down. However, by adopting decisive measures and leveraging on our strong adaptability, we took various measures such as reallocation of produce to supermarkets and retail markets to mitigate our loss in sales. We also used our e-commerce model so-called the "Significant Customer Channel" to keep contact with our inter-provinces or overseas customers and made sales to them. As such, we have achieved such a fair results for the year despite the challenging business environment.

Turnover for the year increased by 28.9% from last year's figure of RMB1,152,133,000. The increase in turnover was fuelled by the reinforced direct sales to overseas customers, and the sustained development of sales network targeting at cities with high purchasing power. In respect of land areas, the weighted-average area of 97,678 mu for the year represents an increase of 31.0% from 74,556 mu for the last year. After enhancement work performed on the previously used land, the productivity is better improved and the sales volume increases accordingly. The Group's total farmland areas (excluding the citrus farm owned by an associated company) amounted to 155,315 mu as at 30th June 2003, representing an increase of 28.7% from 120,725 mu as at the end of last year.

Sales of crops for the year accounted for 91.5% of total turnover, while sales of livestock, supermarkets, ancillary food products and export trading account for 1.6%, 5.4% and 1.5% respectively. Apart from the supermarket business, there has not been any material change to the sales mix by product.

Domestic sales of crops represented 68% of the total turnover for the year while export sales of crops (by means of direct sales to overseas customers and sales locally by delivery to PRC trading companies) took up the remaining 32%. There has not been any material change to the sales mix by market.

The Group's principal business, sales of crops attained over 70% in gross profit margin. Overall gross profit margin dropped from 73.9% last year to 66.9% this year. This is attributable to the change in sales mix arising from the newly established businesses (supermarket and trading which normally has a much lower margin than that of the sales of crops).

The percentage of selling and distribution expenses, as well as general and administrative expenses for the year amounted to 9.4% and 6.3% of turnover respectively, as compared to percentage levels of 9.0% and 4.9% respectively last year. The percentage change in the selling and distribution expenses is not material. While there was an increase in the general and administrative expenses which is attributable to the corresponding increases in the charge of assets depreciation and amortization incurred by the significant capital investment made by Chaoda over the years.

The pre-tax profit margin for the year was 48.9%, which decreased from 58.8% in the previous year by 9.9%. The net profit margin was 48.7% as compared to last year's figure of 54.0%. The decline in net profit margin is a result of the change in sales mix arising from the newly established businesses (supermarket and trading which normally has a much lower margin than that of the sales of crops), and the corresponding increases in the charge of assets depreciation and amortization incurred by the significant capital investment made by Chaoda over the years respectively.

Business Review**Financial Performance**

For the year ended 30th June 2003, the Group's turnover and profits attributable to shareholders were approximately RMB1,485,307,000 and RMB725,134,000 respectively, an increase of 28.9% and 16.6% as compared with last year.

The increase in turnover was fuelled by the reinforced direct sales to overseas customers, and the sustained development of sales network targeting at cities with high purchasing power. Sales of crops increased from 493,000 tons last year to 597,000 tons this year. Leveraging on its ever-expanding sales network and its scientific research efforts, and founding on its existing ground of fruits and vegetables cultivation, the Group will diversify its product portfolio to the cultivation of edible fungi, organic tea, Chinese special excellent fruits, as well as the organic livestock husbandry and advanced processing of agricultural produce, with the ultimate aim of creating new profit growth points for the Group.

Production Base

The total agricultural land areas held by the Group in the PRC increased from 120,725 mu (8,048 hectares) in 30th June 2002 to 155,315 mu (10,354 hectares). Apart from the increase in the scale of the Group's production base, the output per mu was further increased through the adoption of advanced cultivation technologies and successful scientific researches such as three dimensional cultivation. As a result, the production cost can be reduced.

Sales Performance

The major sales channels adopted by the Group include wholesaling, direct sales to overseas customers and indirect export through export trading companies in the PRC. Domestic sales of crops and export sales of crops (direct and indirect) account for 68% and 32% of the Group's total turnover respectively.

Staff and Remuneration Policies

As at 30th June 2003, the Group employed 10,897 staff members, of which 8,319 are workers on the Group's farmlands. Employees' salaries are determined at a competitive level, other staff benefits include the Hong Kong Mandatory Provident Fund, insurance, education subsidies, training programmes and share option scheme.

A share option scheme (the "Scheme") was adopted pursuant to a resolution passed at the extraordinary general meeting of the Company held on 19th June 2002. During the year ended 30th June 2003, options in respect of 145,200,000 shares were granted to the relevant participants under the Scheme.

Prospects

Ever since its establishment, the business model of Chaoda has been built on the consolidation of farmlands for the production of organic and green vegetables and fruits. As a result, we have seen that the business model of "Chaoda" was gradually being optimized over the years. The brand name of "Chaoda" has also gained a high recognition in the market. The Group strongly believes that its foundation has been strengthened following the numerous hardships and challenges in the past three years. Looking ahead, as one of the pioneers in the agricultural industry in the PRC, Chaoda will strive to twist and turn the unfavourable environmental factors (such as cold currents, droughts, floods etc.) and the success factors for the enterprise (such as the insights into the existence of market, mastery in the active control of quality, timely engagement in the division of labor within the international market etc.) into the competitive advantages of the Group, so as to accomplish the goal of "To pioneer, forerun and excel". On the other hand, as a listed company in the capital market of Hong Kong, Chaoda will further increase the transparency of the enterprise and actively respond to the stringent regulation and supervision of the capital market. For this, we are ready to face the challenges ahead and are well-positioned to look forward to the bright future.

Use of Share Issue Proceeds

During the year, the net proceeds which have not yet been utilized in the previous years will be used for the construction of farmlands, irrigation systems and infrastructure facilities and expansion of retail network, without limitation to Nanjing and Beijing production bases; or for the expanding retail network in Shanghai.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 30th June 2003, the Company purchased and cancelled 4,938,000 shares of HK\$0.1 each in the capital of the Company in November 2002 at prices ranging from RMB1.23 (HK\$1.17) to RMB1.29 (HK\$1.22) per share on the Stock Exchange. Such purchases involved a total cash outlay of approximately RMB6,301,000 (HK\$5,951,000) and were for the purpose of enhancing the Company's return on equity.

Save as disclosed above, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the year ended 30th June 2003.

AUDIT COMMITTEE

Mr. Fung Chi Kin and Mr. Tam Ching Ho have been appointed as independent non-executive directors of the Company with effect from 1st September 2003; on the same day, Mr. Wong Kong Chi has resigned as independent non-executive director of the Company. Owing to the change of the said independent non-executive directors, the members of the audit committee ("Audit Committee") presently comprise Mr. Fung Chi Kin and Mr. Tam Ching Ho (Chairman).

The Audit Committee has reviewed with the Company's management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements of the Group during the year.

PUBLICATION OF FURTHER INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

All the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Kwok Ho
Chairman

Hong Kong, 21st October 2003