



Chaoda Modern Agriculture
超大现代农业

2003/04 Annual Results



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Chaoda Modern Agriculture

超大现代农业

Financial Highlights for 2003/2004FY



2004FY Results Summary

Significant increase in sales by 25% and net profit by 25% (before exceptional item) and 38% (after exceptional item)

	<u>2004FY</u> RMB mn	<u>2003FY</u> RMB mn	<u>Change</u> %
Sales	1,862	1,485	25
EBITDA	983	776	27
Profit before M.I. & Taxation	906	726	25
Profit attributable to shareholders - Before exceptional item	904	725	25
Exceptional item : Written back of tax provision in prior years	93	-	N/A
Profit attributable to shareholders - After exceptional item	997	725	38
Earning per share – before exceptional item			
- Basic	RMB 42 cents	RMB 36 cents	17
- Diluted	RMB 41 cents	RMB 36 cents	14
Earning per share – after exceptional item			
- Basic	RMB 46 cents	RMB 36 cents	28
- Diluted	RMB 45 cents	RMB 36 cents	25



Final Dividend Payout

- The Board of Directors is satisfied with the remarkable results achieved by the management and therefore proposed a final dividend by considering the following factors:
 - Sufficient cash position and strong cash flow
 - Good opportunities arisen in China's agricultural sector
 - Chaoda's medium and long term business strategy
- The Board of Directors proposed a 20% of dividend payout ratio of net profit (including exceptional income), i.e. RMB199 mn of dividends (equivalent to HK\$188 mn)

	Regular Dividend	Special Dividend	Total
– RMB per share (cents)	7.7	0.8	8.5
– HK\$ per share (cents)	7.3	0.7	8.0



Sales and Gross Margins

Core business of vegetables and fruits accounted for 91% of total business with a gross margin of 70%

Segment Breakdown	Sales (RMB mn)		Change	Gross Margin	
	2004FY	2003FY		%	2004FY
Crops	1,696	1,358	25	70%	71%
Livestock	41	25	64	69%	83%
Supermarkets	125	80	56	7%	10%
Others	-	22	N/A	-	9%
Total	1,862	1,485	25	66%	67%



Main Profitability Benchmarks Increased by more than 25% with Healthy Margins

Profits and Margins	2004FY	2003FY	Change
	RMB mn	RMB mn	%
EBITDA	983	776	27
EBITDA margin	53%	52%	
Depreciation & amortisation	126	89	42
EBIT	857	687	25
EBIT margin	46%	46%	
Net profit	904*	725	25
Net profit margin	49%*	49%	

* Before written back of tax provision in prior years



Cash Flow Summary

High capital investment to gain market share

Cash Flow Summary	2004FY	2003FY	Change
	RMB mn	RMB mn	%
Cash & cash equivalents at 1 July	743	891	(17)
Cash generated from operations	938	711	32
Net cash used in investing activities	(1,049)	(949)	11
Free cash flow	(111)	(238)	(53)
Dividend paid, finance cost & interest income	(76)	(181)	(58)
Net cash inflow from financing activities	388	271	43
Cash & cash equivalents at 30 June	944	743	27



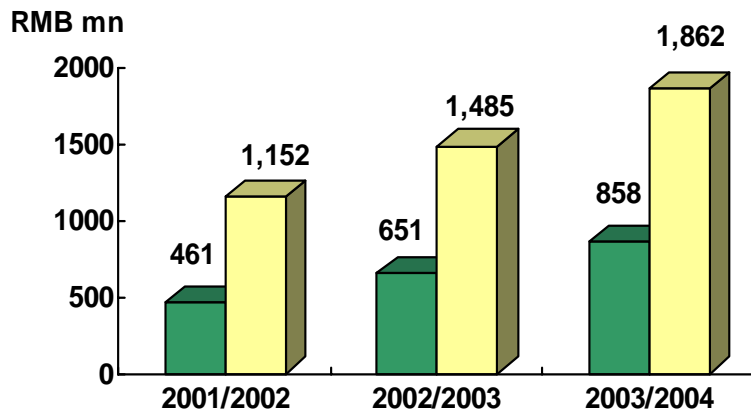
Balance Sheet At-A-Glance

	<u>2004</u> RMB mn	<u>2003</u> RMB mn	<u>Change</u> %
Fixed assets	1,426	1,012	41
Construction in progress	409	372	10
Long-term prepaid rentals	1,138	598	90
Interests in associates	240	183	31
Other long-term assets	164	262	(37)
Net current assets	1,238	473	162
Net assets	4,615	2,900	59
Shareholders' funds	4,613	2,896	59
Minority interests	2	4	(50)

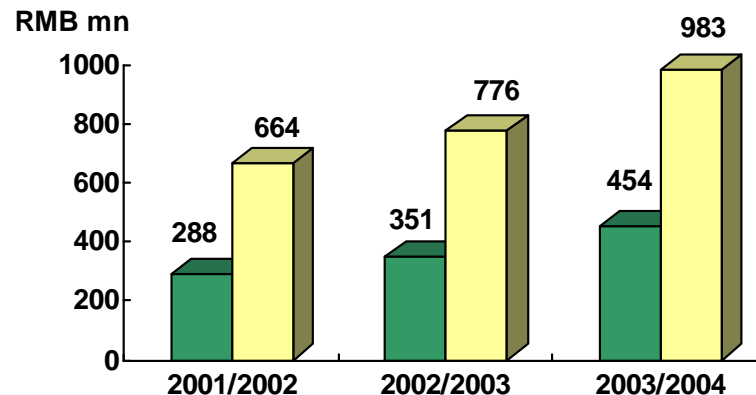


Turnover and Profit Trends

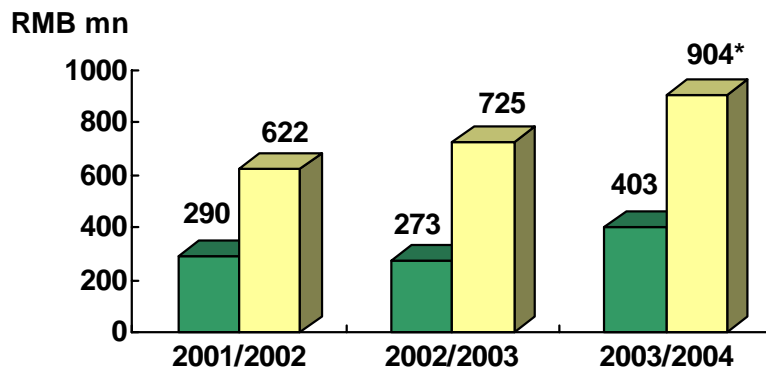
Turnover



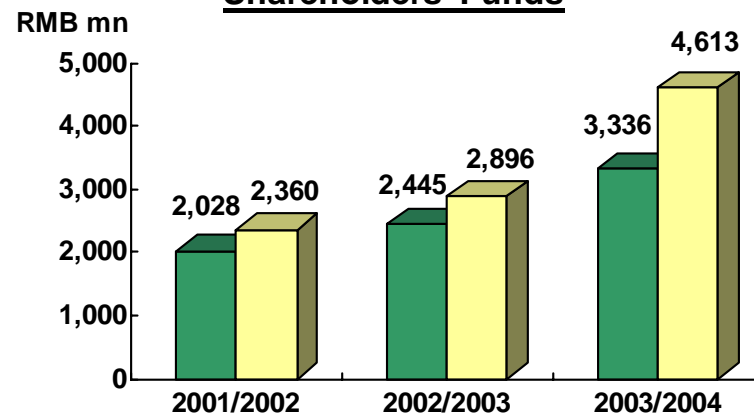
EBITDA



Profit attributable to shareholders



Shareholders' Funds

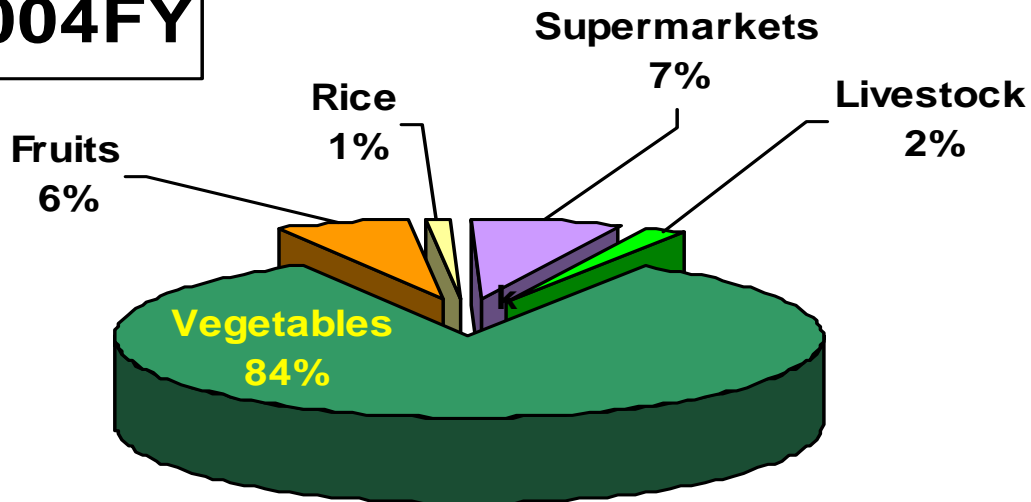


* Before written back of tax provision in prior years

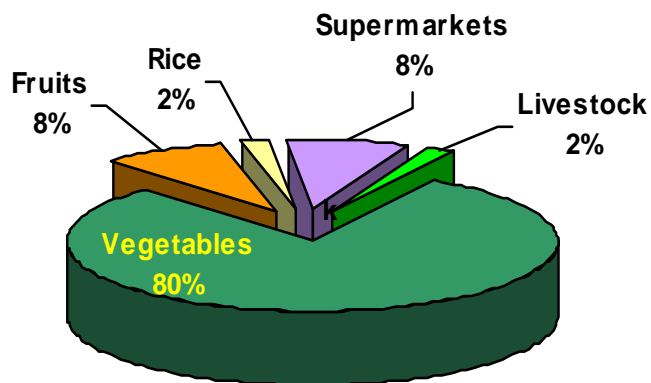


Turnover by Segment

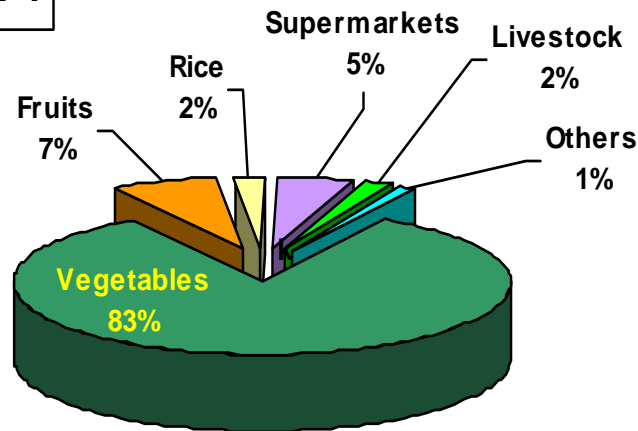
2004FY



1H 2004FY



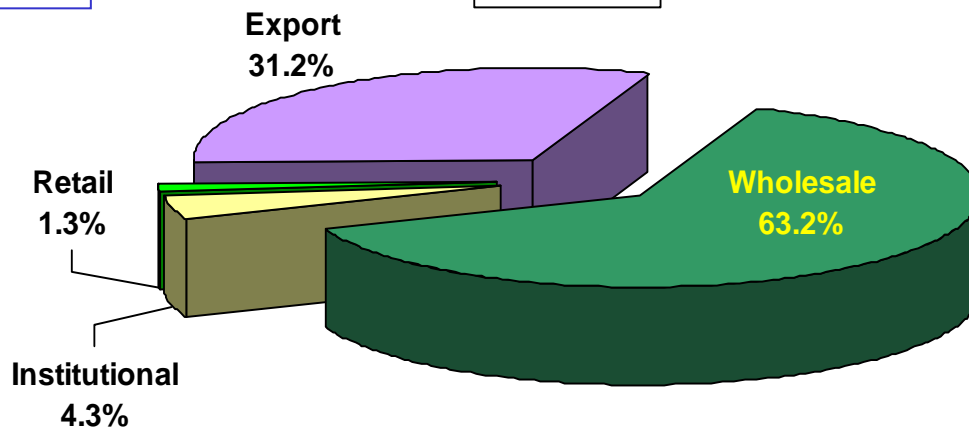
2003FY



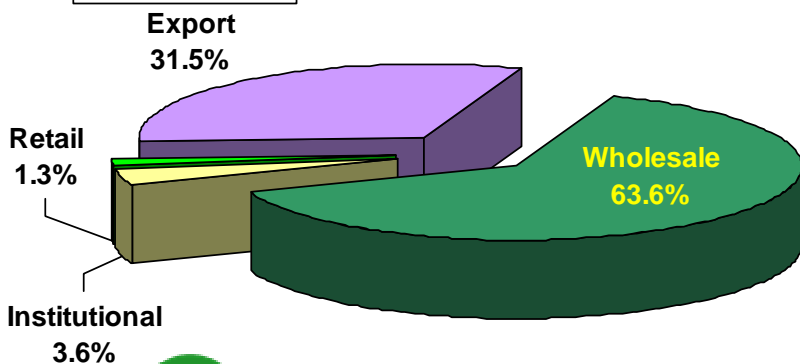
Turnover by Channel

CROPS ONLY

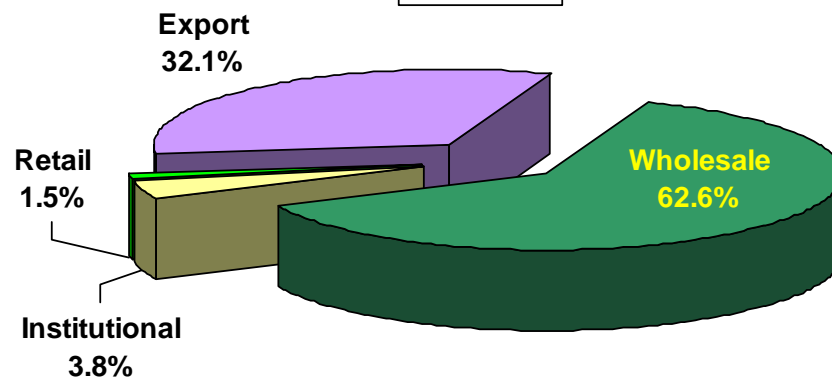
2004FY



1H 2004FY

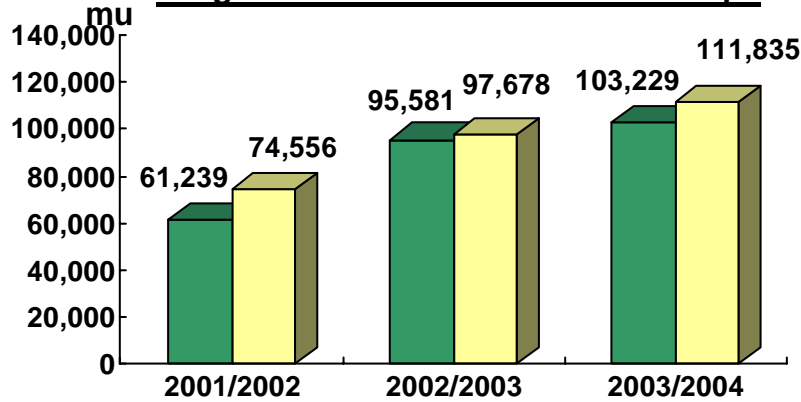


2003FY

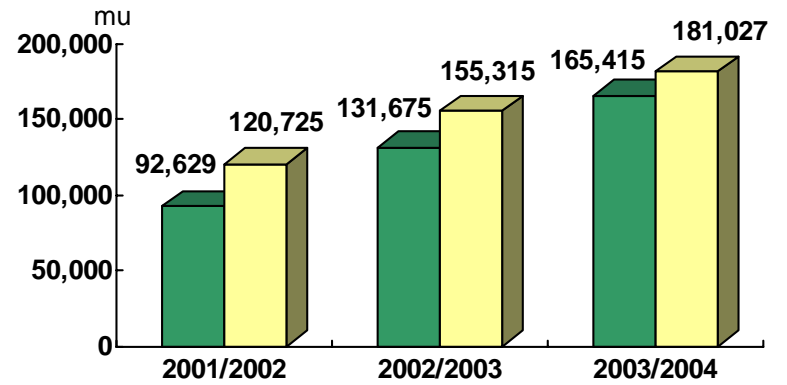


Production Areas and Volume

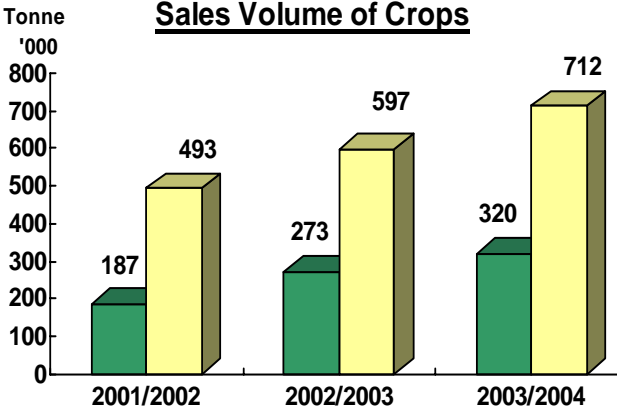
Weighted Av Production Area for Crops



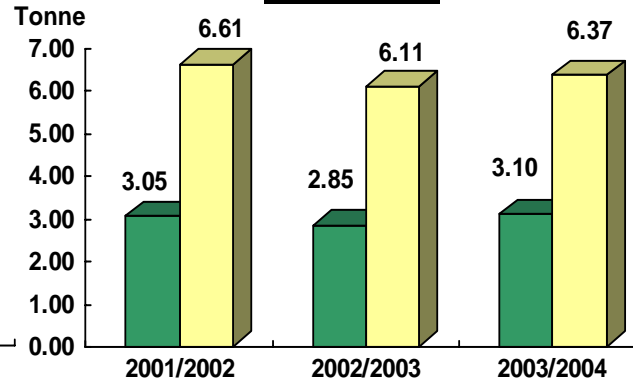
Total Production Base Area



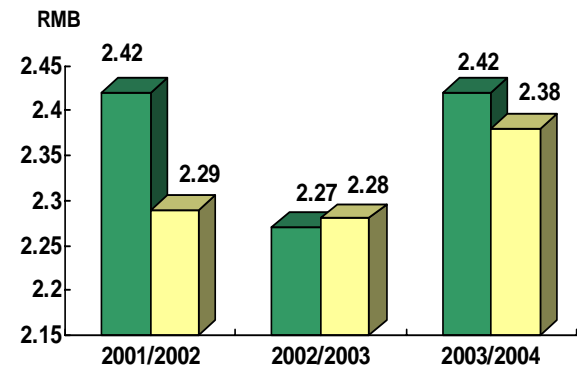
Sales Volume of Crops



Yield per Mu

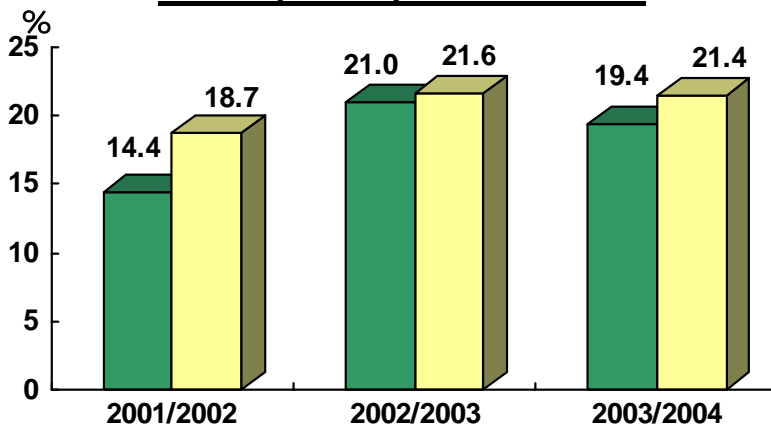


Average Sales Unit Price per Kg

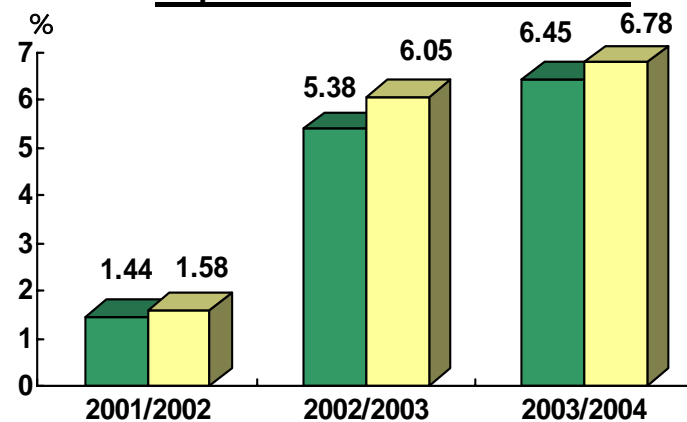


Expense Ratios

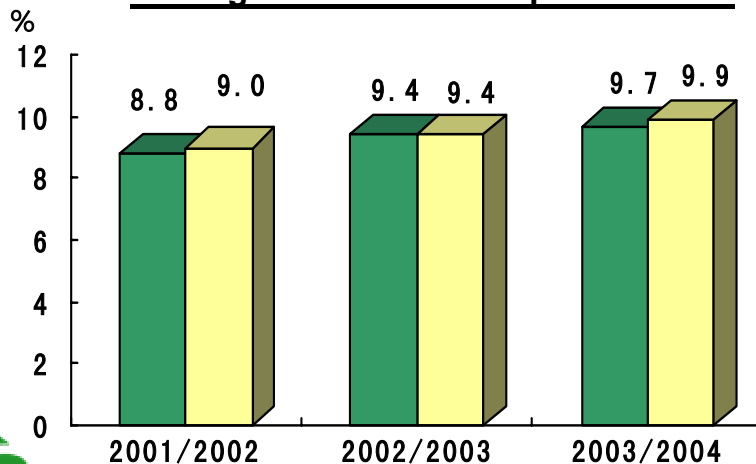
Total Oper. Exp as % of Sales



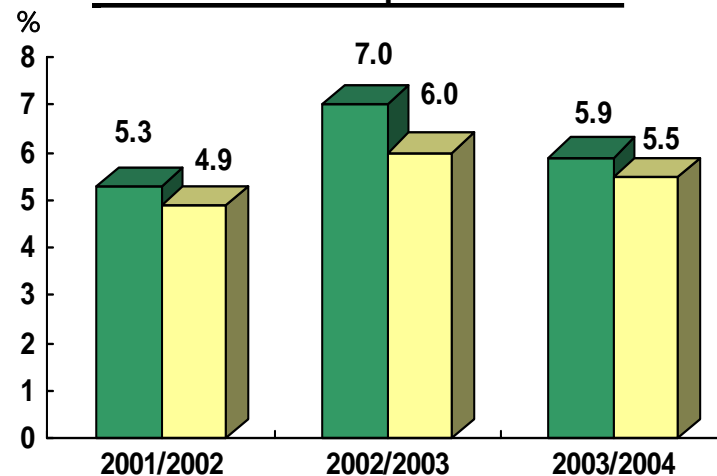
Depre. & Amort. as % of Sales



Selling & Distribution Exp as of Sales

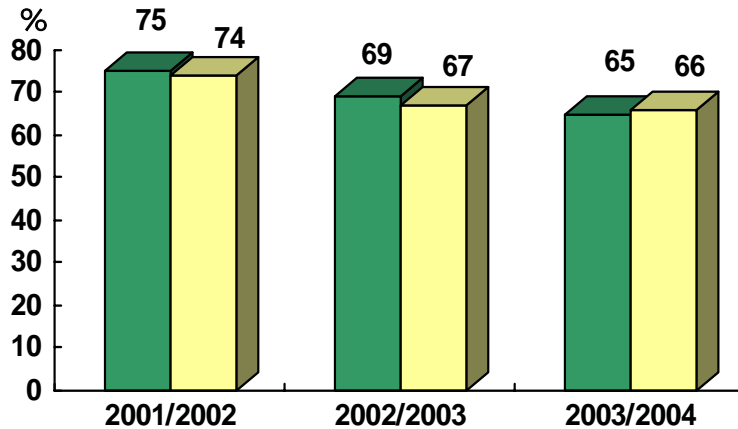


General & Adm Exp as % of Sales

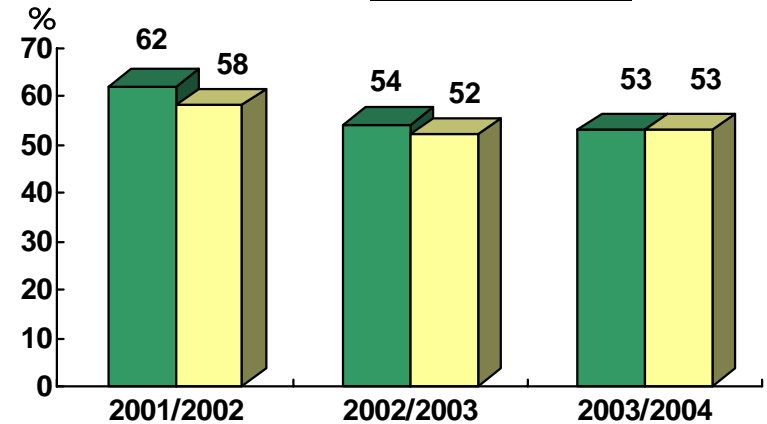


Profit Margins and ROE

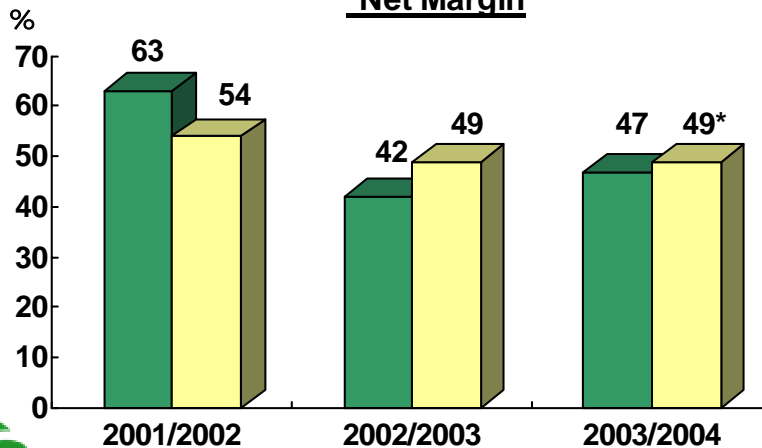
Gross Margin



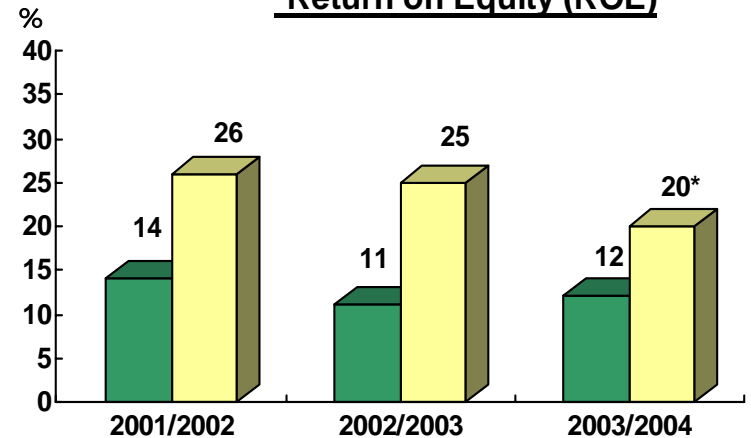
EBITDA Margin



Net Margin



Return on Equity (ROE)



* Before written back of tax provision in prior years





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Market and Business Review



Review of China Vegetable Market

- China's vegetable crop market remained stable during FY 2003/04:
 - Total area of vegetable production was about 270 million mu (15mu = 1 hectare); Total output was about 540 million tonnes
 - Total area of vegetable production for 1H04 remained the same as compared to the same period last year
- Natural disasters from drastic climate changes during the year have resulted in severe imbalances between supply and demand of vegetables, leading to price fluctuations. However, in general, prices have slightly increased
- Strict control and penalty of overloading in transportation has impacted on costs
- China's vegetable exports maintained high growth
 - From January to November 2003, year-on-year sales volume increased by 17% while sales in RMB increased by 14.5%
 - Products were mainly exported to Japan, ASEAN, South Korea, North America and Europe

** Source: Industry report by the Ministry of Agriculture*



Chaoda's Business Maintained Strong Growth Momentum

- Chaoda achieved solid results despite a number of natural disasters from constant climate changes during the year, and it is attributable to the Group's well diversified production bases and strong distribution networks:
 - Turnover up 25.3% to RMB 1.86 billion
 - Total sales volume up 19.3% to 712,000 tonnes
- Although the weighted-average area of production base increased by less than 15%, total vegetable sales has recorded a growth of 25%
 - The weighted average cultivation area for vegetable and fruit reached 112,000 mu, a year-on-year increase of 14.5%
 - The average selling price for vegetable and fruit was RMB2.38 per kilogram, an increase of 4.4% over the same period last year
 - Sales per mu was 6.37 tonnes, an increase of 4.3% over the same period last year
- The superior results of the financial year has further demonstrated Chaoda's
 - Resilient business model in overcoming various risk elements
 - Outstanding competitive advantages





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Market and Business Outlook



Outlook of the China Agricultural Market

- Enactment of the “No.1 Document” by the State Council has identified “The Three Rural Problems” (i.e. farmers, agriculture and rural area) as a top priority among all government agendas in China during 2004 and next 5 years
- China’s agriculture is experiencing a profound revolution
 - Continued favorable tax policy in the near and long term
 - Increasing importance of safety and quality issue of agricultural products
 - Intensified support for developments of ecological agriculture
 - Gradual improvement in State land laws paving way to a better system in modern agricultural “consolidated land leasing” with economy of scale
- Leading the market trend, the operating model of Chaoda illustrates and promotes these principles, with full support from the Chinese government



Outlook of Chaoda's Business

- Favorable government policies and huge market potential will attract more new comers to the market
- The rapid expansion of downstream operators (supermarket chains) will drive further integration in upstream agricultural product suppliers
- We will take advantage of this perfect opportunity to expand our operating scale, enhance our brand power and solidify our leading position in the China Agricultural market
 - To maintain an annual growth of 20% in the group's production base during the next 3-5 years
 - To expand production bases in Zhangzhou, Fujian Province, Beijing and its surrounding area and the areas around the Yangtze River, with a total area of over 25,000 mu in 2005
 - To diversify our cultivating and livestock business and to elevate our market position by leveraging experiences from developed countries and multinational companies



Operating Initiatives

- Main operating business of vegetables:
 - Chaoda pulls core operational and management resources to focus on 70-80 varieties of vegetables, ensuring uninterrupted wholesale supply year round
 - Build strong relationship with well-known supermarket chains both domestically and internationally; revenues derived from these relationships expected to exceed 10% of total revenue within the next 2-3 years
- Expand supply value chain by developing downstream business such as processing in vegetables
 - Foster partnerships with leading firms in US, Europe and Japan in establishing joint-venture processing plants, which will strengthen direct international trade links
- Develop logistics system and further streamline supply-chain system
- Raise brand profile by increasing marketing activities



Develop New Business

– Premium Dairy Breeding Cows

- As China has a shortage of premium-quality dairy cows, the market potential is enormous
 - China's per capita consumption of milk is just 1/13 of the world average, representing a mere 1/37 of those from the developed world, putting China behind the 100th in the world's ranking
 - Lactation is 3 tonnes/year/cow, compared with 7-10 tonnes/year/cow for the developed world
 - Import has been the answer to a lack in supply: on average 40,000 dairy cows were imported each year in the past 4 years
- Establishing a dairy cattle farm in Inner Mongolia as China's largest scale of breeding production for dairy cattle
 - 200,000 mu of fertile grass land
 - Two breeding production centers each occupying 600 mu
- Introducing state-of-the-art breeding technology from a leading US firm
 - Strategic partner: Evergen Biotechnologies, Inc.





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Appendix: Financial Details



Consolidated Profit and Loss Account

[RMB' mn]	(Audited) FY 2004	(Audited) FY 2003	% Change
Turnover	1,862	1,485	25%
Cost of sales	(630)	(492)	28%
Gross profit	1,232	993	24%
Operating expenses	(368)	(290)	27%
Operating profit	864	703	23%
Finance costs	(10)	(15)	(33%)
Share of profits less losses of associates	52	38	37%
Profit before tax	906	726	25%
Taxation – Asso. Co.	(4)	(3)	33%
Profit after tax	902	723	25%
Minority interests	2	2	-
Profit attributable to shareholders -before exceptional item	904	725	25%
Exceptional item : Written back of tax provision in prior years	93	-	N/A
Profit attributable to shareholders -after exceptional item	997	725	38%
EPS (before exceptional item)-Basic	RMB 0.42	RMB 0.36	17%
-Diluted	RMB 0.41	RMB 0.36	14%
EPS (after exceptional item)-Basic	RMB 0.46	RMB 0.36	28%
-Diluted	RMB 0.45	RMB 0.36	25%



Statement of Net Asset

[RMB' mn]	(Audited) 2004	(Audited) 2003	% Change
Fixed assets	1,426	1,012	41%
Construction in progress	409	372	10%
Deferred software development costs	20	39	(49%)
Deferred development costs	75	73	3%
Land use rights	23	-	N/A
L/T prepaid rentals	1,138	598	90%
L/T bank deposits	-	103	N/A
Deferred expenditure	44	44	-
Other L/ T deposits	2	2	-
Interests in associates	240	183	31%
Current assets			
Inventories	126	81	56%
Trade receivables	60	69	(13%)
Other receivables, deposits & prepayments	207	179	16%
Cash & bank balances	944	764	24%
Current liabilities			
Amount due to a related company	7	6	17%
Trade payables, other payables & accruals	53	57	(7%)
Bank loans - secured	39	463	(92%)
Taxation	-	93	N/A
Minority interests	2	4	(50%)
NET ASSETS	4,613	2,896	59%



Minority interests

NET ASSETS

Sales Analysis

	<u>FY 2004</u> %	<u>FY 2003</u> %
<u>BY SEGMENT</u>		
Crops		
Vegetables	84	83
Fruits	6	7
Rice	1	2
	91	92
Supermarkets	7	5
Livestock	2	2
Others	-	1
	<u>100</u>	<u>100</u>
<u>BY CHANNEL</u>		
Domestic (Crops)		
Wholesale	63.2	62.6
Institutional sale	4.3	3.8
Retail sale	1.3	1.5
	68.8	67.9
Export (Crops)	31.2	32.1
	<u>100.0</u>	<u>100.0</u>



Production Analysis (Crops Only)

	<u>FY 2004</u>	<u>FY 2003</u>	<u>% Change</u>
OUTPUT [Tonnes ' 000]			
Vegetables	656	542	21
Fruits	43	42	2
Rice	13	13	-
	712	597	19
Total Production Base Area [mu]	181,027	155,315	17
Total Production Base Area [ha]	12,068	10,354	17
Weighted Av. Production Area [mu]	111,835	97,678	14
Weighted Av. Production Area [ha]	7,456	6,512	14
Yield per mu [Tonnes]	6.37	6.11	4
Harvest ratio	3.29	3.11	6
Yield per harvest [Tonnes per mu]	1.94	1.96	(1)
Av. Sales per kg [RMB]	2.38	2.28	4
No. of species	150+	150+	-
No. of production bases	33	36	(8)
No. of provinces & municipal cities covered	13	13	-



Key Financial Measures

	<u>FY 2004</u>	<u>FY 2003</u>
<u>MARGINS & EXP. AS % OF TURNOVER</u>		
Gross margin	66%	67%
Pre-tax profit margin	49%	49%
Net margin - before exceptional item	49%	49%
Net margin - after exceptional item	54%	N/A
Selling & distribution exp TO turnover	10%	9%
General & administrative exp TO turnover	5%	6%
Research expenses TO turnover	4%	4%
<u>FINANCIAL RATIOS</u>		
Inventory turnover period	73 days	60 days
Accounts receivable turnover	12 days	17 days
Current ratio	13.5	1.8
Gearing ratio (Total bank loans TO total assets)	0.8%	13.2%



Production Area by Location

[15 mu = 1 hectare]

	<u>Weighted Average for Crops Only</u>		<u>Total Production Base Area</u>	
	<u>FY 2004</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2003</u>
<u>Provinces</u>				
Fujian	46,839	31,738	97,137	78,437
Jiangsu	15,500	14,750	16,000	15,000
Shaanxi	17,967	18,175	17,500	18,300
Hainan	6,867	8,000	5,400	8,000
Guangdong	4,000	4,000	4,000	4,000
Shandong	3,000	3,000	3,000	3,580
Liaoning	1,100	1,575	1,100	1,100
Zhejiang	2,000	2,000	2,000	2,000
Hubei	4,792	1,792	16,000	2,000
Jiangxi	-	-	10,000	10,000
<u>Municipal Cities</u>				
Shanghai	2,270	3,648	890	3,898
Beijing	3,500	5,000	4,000	5,000
Tianjin	4,000	4,000	4,000	4,000
TOTAL(mu)	<u>111,835</u>	<u>97,678</u>	<u>181,027</u>	<u>155,315</u>



Production Area by Business Line

- As at 30 June 2004, Chaoda had 33 production bases in 13 provinces in China including 22 crops land, 2 tea gardens and 7 fruit gardens, and 2 plots of vacant land in mountain area
- Total farmland area amounted to 181,027 mu (12,068 Hectares)

	Area (mu)		Percentage of total area		Growth rate
	2004	2003	2004 (%)	2003 (%)	%
Crops land	128,871	102,579	71%	66%	26%
Tea garden	12,050	11,710	7%	8%	3%
Fruit garden	15,518	16,098	8%	10%	(4%)
Mountain Area	24,588	24,928	14%	16%	(1%)
Total area	181,027	155,315	100%	100%	17%



Top Five Products Analysis

By Sales Value

1. Broccoli
2. Cabbage
3. Choi Shum
4. Cauliflower
5. Sweet Corn

By Sales Volume

- Cabbage
- Chinese Cabbage
- Cauliflower
- Broccoli
- Choi Shum



Production Base Distribution

As at 30 June 2004

