



CHAODA MODERN AGRICULTURE (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 682)

FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2004

Turnover increased by 25.3% to RMB1,862 million.
EBITDA increased by 26.7% to RMB983 million.
Net Profit before exceptional income increased by 24.6% to RMB904 million.
Net Profit after exceptional income increased by 37.5% to RMB997 million.

The Board of Directors (the "Board") of Chaoda Modern Agriculture (Holdings) Limited (the "Company" or "Chaoda") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively the "Group") for the year ended 30 June 2004, together with the comparative figures for the corresponding period in 2003 as follows:

CONSOLIDATED INCOME STATEMENT

		2004 RMB'000	2003 RMB'000
Turnover		1,861,758	1,485,307
Cost of sales	2(a)	(629,894)	(491,517)
Gross profit		1,231,864	993,790
Other revenue	2(b)	30,170	30,088
Selling and distribution expenses		(185,094)	(139,767)
General and administrative expenses		(102,269)	(88,638)
Research expenses		(66,709)	(58,535)
Other operating expenses	4	(43,812)	(33,369)
Profit from operations		864,150	703,569
Finance costs		(10,844)	(15,345)
Share of profits less losses of associates	5(a)	52,262	37,803
Profit from ordinary activities before taxation	5	905,568	726,027
Taxation	6	89,083	(2,838)
Profit from ordinary activities after taxation		994,651	723,189
Minority interests		2,103	1,945
Profit attributable to shareholders		996,754	725,134
Earnings per share			
— Basic	7(a)	<u>RMB0.46</u>	RMB0.36
— Diluted	7(b)	<u>RMB0.45</u>	RMB0.36
Dividends			
— Final	8	<u>180,411</u>	71,795
— Special	8	<u>18,744</u>	—
		<u>199,155</u>	<u>71,795</u>

NOTES TO THE FINANCIAL STATEMENTS

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 Institute of Certified Public Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules of Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The financial statements are prepared under the historical cost convention.

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements. It prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior years to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- the related note disclosures are now more extensive than previously required. The disclosures are presented in note 6 to the financial statements and include reconciliation between the accounting profit and the tax expense for the year.
- Unless otherwise stated, the 2003 comparative figures presented herein have incorporated the effect of the adjustments, where applicable, resulting from the adoption of the new accounting standard above.

2. Turnover and other revenue

		2004 RMB'000	2003 RMB'000
(a) Turnover			
Sales of crops		1,695,546	1,358,393
Sales of livestock		41,007	24,557
Supermarkets chain operation		125,205	79,970
Sales of ancillary food products		—	20,123
Export trading		—	—
		<u>1,861,758</u>	<u>1,485,307</u>
(b) Other revenue			
Amortisation of negative goodwill		8,136	8,136
Interest income		6,950	16,930
Sundry income from supermarkets chain operation		4,161	3,227
Others		10,923	1,795
		<u>30,170</u>	<u>30,088</u>

3. Segment information

Analysis of business segment results for the year ended 30 June 2004

	Growing and sales of crops RMB'000	Breeding and sales of livestock RMB'000	Supermarkets chain operation RMB'000	Sales of ancillary food products RMB'000	Export trading RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Sales to external customers	1,698,345	41,007	125,205	2,264	20,123	(2,799)	1,861,758
Cost of sales	(503,321)	(12,732)	(116,640)	(1,588)	(18,763)	2,799	(629,894)
Gross profit	<u>1,195,024</u>	<u>28,275</u>	<u>8,565</u>	<u>676</u>	<u>1,360</u>	<u>—</u>	<u>1,231,864</u>

Unallocated items:

	2004 RMB'000	2003 RMB'000
Other revenue		30,170
Selling and distribution expenses		(185,094)
General and administrative expenses		(102,269)
Research expenses		(66,709)
Other operating expenses		(43,812)
Profit from operations		864,150
Finance costs		(10,844)
Share of profits less losses of associates		52,262
Profit from ordinary activities before taxation		905,568
Taxation		89,083
Profit from ordinary activities after taxation		994,651
Minority interests		2,103
Profit attributable to shareholders		996,754

Inter-segment revenue represents the sales of fruits and 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 30 June 2003

	Growing and sales of crops RMB'000	Breeding and sales of livestock RMB'000	Supermarkets chain operation RMB'000	Sales of ancillary food products RMB'000	Export trading RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Sales to external customers	1,363,164	24,557	79,970	2,264	20,123	(4,771)	1,485,307
Cost of sales	(399,895)	(4,088)	(71,954)	(1,588)	(18,763)	4,771	(491,517)
Gross profit	<u>963,269</u>	<u>20,469</u>	<u>8,016</u>	<u>676</u>	<u>1,360</u>	<u>—</u>	<u>993,790</u>

Unallocated items:

	2004 RMB'000	2003 RMB'000
Other revenue		30,088
Selling and distribution expenses		(139,767)
General and administrative expenses		(88,638)
Research expenses		(58,535)
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

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 90% of the Group's consolidated totals for the years ended 30 June 2004 and 2003. Consequently, no further segment information by business activity is presented.

The Group's operations are primarily in the People's Republic of China (the "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 30 June 2004 and 2003. Consequently, no segment information by geographical area is presented.

4. Other operating expenses

	2004 RMB'000	2003 RMB'000
Expenses incurred for idle farmlands and maintenance	28,520	23,823
Natural loss of growing crops	2,062	2,367
Loss on disposal of fixed assets	5,447	5,366
Others	7,783	1,813
	<u>43,812</u>	<u>33,369</u>

5. Profit from ordinary activities before taxation

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

		2004 RMB'000	2003 RMB'000
(a) Finance costs			
Interest on bank loans		4,973	10,749
Bank charges		5,871	4,596
		<u>10,844</u>	<u>15,345</u>
(b) Staff costs			
Salaries, wages and other benefits		141,944	133,254
Retirement benefits costs		1,840	1,655
		<u>143,784</u>	<u>134,909</u>
(c) Other items			
Amortisation of negative goodwill		(8,136)	(8,136)
Auditors' remuneration		2,901	4,155
— Current year		87	1,269
— Under-provision in prior year		629,894	491,517
Cost of inventories sold		83,352	52,971
Depreciation of owned fixed assets (net of amount capitalised in inventories)		59,287	50,127
Operating lease expenses		130	575
— land and buildings		19,658	19,591
— motor vehicles		5,173	3,150
— computer software development cost		274	—
Amortisation of deferred development costs		14,507	9,078
Amortisation of land use rights		11,406	13,146
Amortisation of long-term prepaid rentals (net of amount capitalised in inventories)		66,709	58,535
Amortisation of deferred expenditure		5,447	5,366
Research expenses		—	—
Loss on disposal of fixed assets		—	—

6. Taxation

The amount of taxation credited/(charged) to the consolidated income statement represents:

	Note	2004 RMB'000	2003 RMB'000
PRC income tax			
— Current year	(a)	—	—
— Over-provision in previous years	(b)	93,096	—
Hong Kong profits tax	(c)	—	—
		<u>93,096</u>	<u>—</u>
Share of taxation attributable to associates		(5,489)	(2,838)
— Current year		1,476	—
— Over-provision in previous year	(d)	89,083	(2,838)

(a) Fuzhou Chaoda Modern Agriculture Development Company Limited, the Group's principal subsidiary, was awarded as "State-Level Agricultural Leading Enterprise" of the nation by the central government of 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, Securities Regulatory Commission and Chinese Supply and Marketing Cooperatives, domestic PRC State-Level Agricultural Leading Enterprises are entitled to certain tax benefits including full exemption of income tax. These tax benefits will also be applied to other PRC subsidiaries comprising the Group.

(b) Before obtaining the award of "State-Level Agricultural Leading Enterprise" in December 2002, provisions for PRC income tax, aggregating to RMB93,096,000, had been provided in respect of the net profits of certain subsidiaries for the years ended 30 June 1998, 1999, 2000, 2001 and 2002. According to the current rules and practice in relation to the tax exemption policy for "State-Level Agricultural Leading Enterprise", the Group is not required to pay these PRC income tax payables. In view of this, the whole provision of RMB93,096,000 has been written back during the year.

(c) No provision for Hong Kong profits tax has been made as there is no estimated assessable profits (2003: Nil) for the Company and its subsidiaries operating in Hong Kong during the year.

(d) It represents the share of PRC income tax charged on the assessable profits of Lucky Team Biotech Development (Hepu) Limited ("Hepu"), a 49% associate directly owned by a wholly owned subsidiary of the Group.

Hepu is a Foreign Investment Enterprise ("FIE") and operates in Guangxi Province, the PRC. The preferential foreign enterprise income tax rate for productive FIEs 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 was lapsed during the year ended 30 June 2002. Hepu has been subject to a reduced income tax rate of 7.5% for a tax reduction period of 3 years.

(e) The Group has not recognised deferred tax asset in respect of tax losses of RMB17,637,000 (2003: RMB12,115,000). The tax losses are mainly attributable from the expenses incurred by the Company. Since the principal activity of the Company is investment holding, no revenue inflow is expected in the foreseeable future. The deferred tax assets are therefore not recognised as the realisation is uncertain.

The charge for the year is reconciled to the profit before taxation per income statement as follows:

	2004 RMB'000	2003 RMB'000
Profit before tax	905,568	726,027
Notional tax on profit before tax, calculated at the rate applicable to profits in the countries concerned	(275,307)	(198,109)
Tax effect of expense/(income) that are not deductible/taxable in determining taxable profit and tax allowance	(22)	(19,432)
Tax effect of non-taxable offshore profit	403	223,045
Tax effect of unrecognised tax losses	(12,991)	(8,692)
Tax effect of exemption benefits under State-Level Agricultural Leading Enterprise	287,917	188
Over-provision in previous years	93,096	—
Share of tax of associates (net of over-provision in previous year)	(4,013)	(2,838)
	<u>89,083</u>	<u>(2,838)</u>

7. Earnings per share

(a) Basic earnings per share

The calculation of the earnings per share is based on the profit attributable to shareholders of RMB996,754,000 (2003: 725,134,000) and the weighted average number of 2,167,796,045 (2003 (restated): 2,012,607,450 after adjusting for the bonus shares issued in 2004) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of RMB996,754,000 (2003: 725,134,000) and the weighted average number of 2,210,334,639 (2003 (restated): 2,012,607,450 after adjusting for the bonus shares issued in 2004) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

The weighted average number of shares for the calculation of basic earnings per share and diluted earnings per share, has been both adjusted from 1,916,769,000 to 2,012,607,450, as a result of the adjustment for the bonus shares issued during the year ended 30 June 2004.

(c) Reconciliation

	2004 Number of shares	2003 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	2,167,796,045	2,012,607,450
Deemed issue of ordinary shares	42,538,594	—
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>2,210,334,639</u>	<u>2,012,607,450</u>

8. Dividends

	2004 RMB per share	2003 RMB per share
Final dividend proposed of HK\$0.073 (2003: HK\$0.0349) per ordinary share	0.077	0.037
Special dividend proposed of HK\$0.007 (2003: Nil) per ordinary share	0.008	—
	<u>0.085</u>	<u>0.037</u>

At a meeting held on 19 October 2004, the directors proposed a final dividend of HK\$0.073 (equivalent to RMB0.077) per ordinary share. The directors also proposed a special dividend of HK\$0.007 (equivalent to RMB0.008) per ordinary share for the exceptional income of tax provided in prior years being written back during the year. The proposed final dividend and the special dividend are subject to approval by the shareholders in the forthcoming Annual General Meeting and not yet accounted for in the current year's financial statements, but will be reflected as an appropriation of retained profits in the financial statements for the year ending 30 June 2005.

For the year ended 30 June 2003, the aggregate amount of proposed dividend disclosed in the previous financial statements was RMB70,857,294. However, at the date of approval of the final dividend on 19 December 2003, the number of issued shares had been increased from 1,915,062,000 to 1,942,912,000 due to the exercise of 27,850,000 share options before the closure of register of members for judgment of final dividend. As a result, the actual aggregate dividend paid for the year ended 30 June 2003 had been increased from RMB70,857,294 to RMB71,794,717.

9. Reserves

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

	2004 RMB'000	2003 RMB'000
Transfer to statutory common reserve	96,911	3,487
Transfer to statutory welfare reserve	300	—
	<u>97,211</u>	<u>3,487</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 the Company's 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 the Company's registered share capital.

The statutory common reserve can be used to make good previous years' losses while the statutory welfare reserve can be utilised for employees' welfare facilities. The statutory welfare reserve is non-distributable other than in liquidation.

The above appropriation of reserves includes the appropriations made by the Group's PRC domestic enterprises and the Group's FIEs.

DIVIDENDS

The Board has recommended the payment of a final dividend of RMB0.077 per share (approximately equivalent to HK\$0.073 per share) for the year ended 30 June 2004. The Board also recommended the payment of a special dividend of RMB0.008 per share (approximately equivalent to HK\$0.007 per share) for the exceptional income of tax provided in prior years being written back during the year. The proposed final dividend and the special dividend are subject to approval by the shareholders at the forthcoming annual general meeting to be held on 25 November 2004, to the shareholders whose names appear on the Register of Members of the Company on 25 November 2004 and payable on or before 9 December 2004. No interim dividend was declared for the six months ended 31 December 2003 (2002: Nil).

CLOSURE OF THE REGISTER OF MEMBERS

The register of members will be closed from Friday, 19 November 2004 to Thursday, 25 November 2004, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify