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## **CHAODA MODERN AGRICULTURE (HOLDINGS) LIMITED**

*(incorporated in Cayman Islands with limited liability)*

### **ANNOUNCEMENT APPLICATION FOR NEW WAIVER FOR ONGOING CONNECTED TRANSACTIONS**

The Group entered into the Organic Fertilisers Supply Agreement and the Plant Growth Regulators Supply Agreement with Fujian Chaoda Trading on 1 December, 2000. Fujian Chaoda Trading is a company in which Mr. Kwok (a Director and the controlling shareholder of the Company) has an indirect 60% equity interest. Fujian Chaoda Trading is an associate of Mr. Kwok and hence, a connected person in relation to the Company within the meaning of the Listing Rules.

The Organic Fertilisers Supply Agreement and the Plant Growth Regulators Supply Agreement constitute connected transactions of the Company under the Listing Rules, in respect of which the Company has obtained the 2000 Waiver from the Stock Exchange from strict compliance with the requirements of disclosure by press notice and circular to Shareholders and approval by Independent Shareholders under Chapter 14 of the Listing Rules. The 2000 Waiver was granted for the three financial years ended 30 June, 2003. Details relating to, among other things, the Agreements and the application made by the Company in respect of the 2000 Waiver had previously been disclosed in the Prospectus. The 2000 Waiver expired on 30 June, 2003.

Each of the Agreements has an initial term of twenty years commencing from 1 December, 2000. During the remaining term of the Agreements, the Group expects to continue to make purchases pursuant to the Agreements in the ordinary and usual course of its business. The annual aggregate value of such purchases under each of the Agreements is expected to exceed the higher of HK\$10,000,000 and 3% of the 2003 NTA and the Transactions carried out pursuant to each of the Agreements will, therefore, be subject to disclosure and Independent Shareholders' approval requirements under the Listing Rules. As the Transactions are expected to be carried out on a recurring basis, the Directors consider that it will be unduly burdensome and impractical for the Company to make disclosure and seek Independent Shareholders' approval on each occasion a Transaction is entered into. Hence, subject to the Independent Shareholders' approval, the Company has applied for a new general waiver from strict compliance with the requirements of disclosure by press notice and circular to Shareholders and Independent Shareholders' approval under Chapter 14 of the Listing Rules in respect of the Transactions for the three financial years ending 30 June, 2006.

The aggregate value of purchases made by the Group under the Organic Fertilisers Supply Agreement since the Expiry Date and up to 30 September, 2003 amounted to approximately RMB47,767,000 which exceeded the threshold of the higher of HK\$1,000,000 and 0.03% of the 2002 NTA prescribed under Rule 14.24(5) of the Listing Rules. Due to an inadvertent oversight by the Company, the Company had not complied with the relevant provision(s) prescribed under Chapter 14 of the Listing Rules relating to connected transactions in respect of such purchases at the time when such threshold was exceeded. This constituted a breach of the Listing Rules. Disclosure of the aggregate value of purchases made by the Company pursuant to the Organic Fertilisers Supply Agreement had been made in the interim reports and annual reports of the Company in the past three financial years ended 30 June, 2003.

The aggregate value of purchases made by the Group under the Plant Growth Regulators Supply Agreement since the Expiry Date and up to 30 September, 2003 amounted to approximately RMB945,000 (being less than HK\$1,000,000) which is within the *de minimis* exemption for connected transactions under Rule 14.24(5) of the Listing Rules.

A circular containing, among other things, details of the Agreements and the Transactions, a letter from Independent Board Committee and an opinion of the independent financial adviser, together with a notice convening the EGM to consider, and if appropriate, to approve the Transactions will be despatched to the Shareholders as soon as practicable. Mr. Kwok, Kailey Investment and Madam Chiu, being his associates, will abstain from voting in relation to the resolution(s) to be put forward at the EGM for the purpose of approving the Transactions.

## **BACKGROUND**

Reference is made to the paragraph headed “Connected transactions” under the “Business” section of the Prospectus setting out details of the connected transactions regarding the purchase of organic fertilisers and plant growth regulators by the Group from Fujian Chaoda Trading.

The Group entered into the Organic Fertilisers Supply Agreement and the Plant Growth Regulators Supply Agreement with Fujian Chaoda Trading on 1 December, 2000. Fuzhou Chaoda is a wholly-owned subsidiary of the Company. Fujian Chaoda Trading is a company established in the PRC and in which Fuzhou Chaoda Group holds a 60% equity interest. The remaining 40% equity interest in Fujian Chaoda Trading is currently held by an independent third party of the Company who is independent of and not connected with any director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of the Company or any of its subsidiaries or any of their respective associates. Fuzhou Chaoda Group is a company established in the PRC and is owned as to 95% by Mr. Kwok, a Director and the controlling shareholder of the Company, and 5% by Madam Chiu, a Director and an associate of Mr. Kwok. Hence, Fujian Chaoda Trading is an associate of Mr. Kwok and a connected person in relation to the Company within the meaning of the Listing Rules. On such basis, the Organic Fertilisers Supply Agreement and the Plant Growth Regulators Supply Agreement both constitute connected transactions of the Company under the Listing Rules.

As disclosed in the Prospectus, the Company applied to the Stock Exchange for a general waiver from strict compliance with the requirements of disclosure by press notice and circular to Shareholders and approval by Independent Shareholders under Chapter 14 of the Listing Rules in respect of the Transactions under each of the Agreements. On 20 December, 2000, the Stock Exchange granted the 2000 Waiver.

## **THE ORGANIC FERTILISERS SUPPLY AGREEMENT**

Date : 1 December, 2000

Purchaser : Fuzhou Chaoda

Supplier : Fujian Chaoda Trading

Products : biological organic fertilisers, high efficiency organic fertilizers (or such other types of organic fertilizers as may be agreed between the parties in writing from time to time)

- Pricing : to be agreed between the parties at the time when a purchase order is placed by Fuzhou Chaoda with Fujian Chaoda Trading, such price to be acceptable to Fujian Chaoda Trading provided that it shall not exceed the average ex-factory price (net of delivery costs) at which the same type of organic fertilisers were sold by Fujian Chaoda Trading to independent third parties during the calendar month preceding the date on which the purchase order is placed by Fuzhou Chaoda
- Term : an initial term of twenty years commencing on 1 December, 2000, during which the agreement may be terminated by Fuzhou Chaoda by giving not less than three months' notice in writing to Fujian Chaoda Trading (but may not be terminated by notice by Fujian Chaoda Trading). In addition, either party may terminate the agreement without notice upon the occurrence of certain events such as material breach of obligations by the other party. After the end of the initial term, the agreement will remain in force unless and until terminated by either party giving the other not less than three months' written notice.

The following table sets out the approximate total value of purchases of organic fertilisers made by the Group under the Organic Fertilisers Supply Agreement for the three financial years ended 30 June, 2003 and the three months ended 30 September, 2003:

	Year ended 30 June,			From 1 July to 30 September,
	2001	2002	2003	2003
	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(unaudited)
Purchase of organic fertilisers from Fujian Chaoda Trading	52,097	105,585	<b>136,311</b>	<b>47,767</b>
As % of total purchases of the Group ( <i>Note 1</i> )	43.32%	45.23%	<b>32.61%</b>	<b>11.43%</b>
As % of the total turnover of the Group ( <i>Note 2</i> )	7.2%	9.2%	<b>9.2%</b>	<b>3.2%</b>
As % of the Group's net tangible assets	4.6%	4.5%	<b>4.7%</b>	<b>2.0%</b> ( <i>Note 3</i> )

*Notes:*

1. In accordance with the 2000 Waiver, the total annual expenditure in respect of organic fertilisers being purchased by the Group pursuant to the Organic Fertilisers Supply Agreement in any financial year is not to exceed 55% of the total purchases to be made by the Group in such financial year.
2. In accordance with the 2000 Waiver, the total annual expenditure in respect of organic fertilisers being purchased by the Group pursuant to the Organic Fertilisers Supply Agreement in any financial year is not to exceed 12% of the Group's total turnover in such financial year.
3. This percentage was calculated by reference to the 2002 NTA.

## THE PLANT GROWTH REGULATORS SUPPLY AGREEMENT

Date	:	1 December, 2000
Purchaser	:	Fuzhou Chaoda
Supplier	:	Fujian Chaoda Trading
Products	:	plant growth regulators used for the cultivation of vegetables, fruit trees, paddy rice and tea (or such other types of plant growth regulators as may be agreed between the parties in writing from time to time)
Pricing	:	to be agreed between the parties at the time when a purchase order is placed by Fuzhou Chaoda with Fujian Chaoda Trading, such price to be acceptable to Fujian Chaoda Trading provided that it shall not exceed the average ex-factory price (net of delivery costs) at which the same type of plant growth regulators were sold by Fujian Chaoda Trading to independent third parties during the calendar month preceding the date on which the purchase order is placed by Fuzhou Chaoda
Term	:	an initial term of twenty years commencing on 1 December, 2000, during which the agreement may be terminated by Fuzhou Chaoda by giving not less than three months' notice in writing to Fujian Chaoda Trading (but may not be terminated by notice by Fujian Chaoda Trading). In addition, either party may terminate the agreement without notice upon the occurrence of certain events such as material breach of obligations by the other party. After the end of the initial term, the agreement will remain in force unless and until terminated by either party giving the other not less than three months' written notice.

The following table sets out the approximate total value of purchases of plant growth regulators made by the Group under the Plant Growth Regulators Supply Agreement for the three financial years ended 30 June, 2003 and the three months ended 30 September, 2003:

	Year ended 30 June,			From 1 July to
	2001	2002	2003	30 September,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)	(unaudited)
Purchase of plant growth regulators from Fujian Chaoda Trading	1,343	3,004	<b>2,557</b>	<b>945</b>
As % of total purchases of the Group ( <i>Note 1</i> )	1.1%	1.3%	<b>0.6%</b>	<b>0.2%</b>
As % of the total turnover of the Group ( <i>Note 2</i> )	0.18%	0.26%	<b>0.17%</b>	<b>0.06%</b>
As % of the Group's net tangible assets	0.12%	0.13%	<b>0.09%</b>	<b>0.04%</b> ( <i>Note 3</i> )

*Notes:*

1. In accordance with the 2000 Waiver, the total annual expenditure in respect of plant growth regulators being purchased by the Group pursuant to the Plant Growth Regulators Supply Agreement in any financial year is not to exceed 3% of the total purchases to be made by the Group in such financial year.
2. In accordance with the 2000 Waiver, the total annual expenditure in respect of plant growth regulators being purchased by the Group pursuant to the Plant Growth Regulators Supply Agreement in any financial year is not to exceed 0.5% of the Group's total turnover in such financial year.
3. This percentage was calculated by reference to the 2002 NTA.

## **NEW WAIVER APPLICATION**

Pursuant to the 2000 Waiver, the Company is, subject to certain conditions, exempted from strict compliance with the requirements of disclosure by press notice and circular to Shareholders and approval by Independent Shareholders under Chapter 14 of the Listing Rules in respect of the Transactions under each of the Organic Fertilisers Supply Agreement and the Plant Growth Regulators Supply Agreement for the three financial years ended 30 June, 2003. The 2000 Waiver expired on 30 June, 2003.

The Group has continued to purchase organic fertilisers and plant growth regulators from Fujian Chaoda Trading pursuant to the Agreements after the Expiry Date. The aggregate value of purchases made by the Group under the Organic Fertilisers Supply Agreement since the Expiry Date and up to 30 September, 2003 exceeded the threshold of the higher of HK\$1,000,000 and 0.03% of the 2002 NTA prescribed under Rule 14.24(5) of the Listing Rules. Due to an inadvertent oversight by the Company, the Company had not complied with the relevant provision(s) prescribed under Chapter 14 of the Listing Rules relating to connected transaction in respect of such purchases at the time when such threshold was exceeded. This constituted a breach of the Listing Rules. Disclosure of the aggregate value of purchases made by the Company pursuant to the Organic Fertilisers Supply Agreement had been made in the interim reports and annual reports of the Company in the past three financial years ended 30 June, 2003. The Stock Exchange has indicated that it will reserve its rights to take any action pursuant to the Listing Rules against the Company and/or the Directors in respect of the breach of the Listing Rules by the Company as mentioned above.

The Company had recruited a new officer to act as the director of corporate communication department of the Group earlier this year whose primary responsibility is regulatory compliance by the Company. Since the new officer joined the Group in June 2003, a more comprehensive internal control procedure has been adopted by the Group to enable regular reporting by the operating subsidiaries of the Company to the head office of the Group in Hong Kong in respect of the transactions conducted under the Organic Fertilisers Supply Agreement and the Plant Growth Regulators Supply Agreement. The Company will continue to take steps to strengthen and improve internal control procedures to ensure compliance with the Listing Rules and other legal and regulatory provisions applicable to the Company.

The aggregate value of purchases made by the Group under the Plant Growth Regulators Supply Agreement since the Expiry Date and up to 30 September, 2003 amounted to approximately RMB945,000 (being less than HK\$1,000,000) representing approximately 0.04% of the 2002 NTA, which is within the de minimis exemption for connected transactions under Rule 14.24(5) of the Listing Rules.

During the remaining term of the Agreements, the Group expects that it will continue to enter into the Transactions in the ordinary and usual course of its business. The total annual value of such Transactions under each of the Agreements is expected to exceed the higher of HK\$10,000,000 and 3% of the 2003 NTA and the Transactions carried out pursuant to each of the Agreements will, therefore, be subject to the requirements of disclosure and approval by Independent Shareholders under the Listing Rules. As the Transactions are expected to be carried out on a recurring basis, the Directors consider that it will be unduly burdensome and impractical for the Company to make disclosure and seek Independent Shareholders' approval on each occasion a Transaction is entered into. Hence, subject to the Independent Shareholders' approval, the Company has applied for a new general waiver from strict compliance with the requirements of disclosure by press notice and circular to Shareholders and approval by Independent Shareholders under Chapter 14 of the Listing Rules in respect of the Transactions for the three financial years ending 30 June, 2006 on the following conditions:—

- (a) the Transactions, and the arrangements governing those Transactions, are entered into by the Group in the ordinary and usual course of business, and are either (i) on normal commercial terms or better; or (ii) if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than terms available to or from (as appropriate) independent third parties;
- (b) the Transactions shall be in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (c) the Company will disclose details of the Transactions in each year in the Company's annual report and accounts for the relevant year, as set out in rule 14.25(1)(A) to (D) of the Listing Rules;
- (d) the Company's independent non-executive Directors will review annually the Transactions and confirm, in the Company's annual report and accounts, that the Transactions have been conducted in the manner stated in paragraphs (a), (b) and (g);
- (e) the Company's auditor will carry out review procedures annually on the Transactions and shall provide a letter to the Board, with a copy of that letter to the Stock Exchange confirming that the Transactions:—
  - (i) have received the approval of Board;
  - (ii) have been entered into in accordance with the relevant agreement governing the Transactions or on normal commercial terms in the ordinary and usual course of the Group's business; and
  - (iii) have been entered into within the proposed limits stated in paragraph (g) below;
- (f) for the purpose of the review and reporting on the Transactions by the auditor mentioned in paragraph (e) above, the Company, Mr. Kwok and Fujian Chaoda Trading shall undertake to the Stock Exchange that the auditor will have sufficient access to the accounting records of Fujian Chaoda Trading in respect of the Transactions; and

- (g) the total annual expenditure in respect of each category of products being purchased by the Group pursuant to the Transactions in any financial year will not exceed the lower of the proposed percentage limits of the Group's turnover and the total purchase of raw materials of the Group in such financial year set out below:—

<b>Type of products</b>	<b>Proposed annual limit based on percentage of the Group's turnover in the corresponding financial year</b>	<b>Proposed annual limit based on the total purchase of raw materials to be made by the Group in the corresponding financial year</b>
Purchase of organic fertilisers	12%	55%
Purchase of plant growth regulators	0.5%	3%

Where the total annual expenditure exceeds those referred to in paragraph (g) above, the Company shall comply with the provisions of Chapter 14 of the Listing Rules governing connected transactions, unless the Company applies for and obtains a separate waiver from the Stock Exchange.

## **REASONS FOR THE TRANSACTIONS**

Fuzhou Chaoda is principally engaged in the cultivation and sales of crops, and breeding and sales of livestock in the PRC. The Organic Fertilisers Supply Agreement and the Plant Growth Regulators Supply Agreement were entered into between the Group (through Fuzhou Chaoda) and Fujian Chaoda Trading for a term of twenty years commencing on 1 December, 2000. While the Group can purchase organic fertilisers and plant growth regulators from other independent suppliers in the PRC, the Directors are of the view that the Group will continue to benefit from the Agreements as they ensure that the Group has a stable and reliable supply of good quality organic fertilisers and plant growth regulators, both of which are important raw materials of the agriculture produce business of the Group.

During the remaining term of the Agreements, the Group expects to continue to make purchases from Fujian Chaoda Trading under the Agreements in the ordinary and usual course of its business. The Directors are of the view that the Transactions to be carried out pursuant to the Agreements will be on normal commercial terms arrived at after arm's length negotiations between the parties that are fair and reasonable so far as the Shareholders are concerned.

In each of the three years ended 30 June, 2003, purchases of organic fertilisers and plant growth regulators made by the Group under the Agreements represented less than (i) 12% and 0.5% of the Group's turnover and (ii) 55% and 3% of the total purchases of raw materials made by the Group, respectively under the 2000 Waiver. Based on the past experience and knowledge of the Group, larger amounts of organic fertilizers would be required to be used by the Group for the cultivation of fruits as compared to vegetables and the cultivation of certain types of agricultural produce among the diversified product portfolio of the Group would also require high consumption of organic fertilisers and/or plant growth regulators. The Group intends to continue to expand its business of cultivation and sales of agricultural produce. In addition, it is the present intention of the Group to further enhance its business of cultivation and sales of fruit products by planting more fruit trees. Hence, it is expected that the annual consumption of organic fertilisers and plant growth regulators by the Group will increase for the three years ending 30 June, 2006. For the reasons mentioned above and in order to accommodate future growth and development of the Group's business, the Directors consider that the proposed percentage limits in connection with the Transactions set out in paragraph (g) under the

section headed “New waiver application” above (which represent the same thresholds provided under the 2000 Waiver in respect of the transactions conducted by the Group pursuant to the Organic Fertilisers Supply Agreement and the Plant Growth Regulators Supply Agreement (as the case may be)) to be necessary and appropriate.

## **GENERAL**

The Company is an investment holding company. The Group is principally engaged in the agriculture produce and livestock businesses in the PRC.

A circular containing, among other things, details of the Agreements and the Transactions, a letter from Independent Board Committee and an opinion of the independent financial adviser, together with a notice convening the EGM to consider, and if appropriate, to approve the Transactions will be despatched to the Shareholders as soon as practicable. Mr. Kwok, Kaily Investment and Madam Chiu, being his associates, will abstain from voting in relation to the resolution(s) to be put forward at the EGM for the purpose of approving the Transactions.

## **DEFINITION**

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:—

“Agreements”	the Organic Fertilisers Supply Agreement and the Plant Growth Regulators Supply Agreement
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	Chaoda Modern Agriculture (Holdings) Limited, a company incorporated in Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“controlling shareholder”	has the meaning ascribed thereto in the Listing Rules;
“Director(s)”	director(s) (including all independent non-executive directors) of the Company
“EGM”	the extraordinary general meeting of the Company to be held to approve the Transactions by the Independent Shareholders
“Expiry Date”	30 June, 2003, being the expiry date of the 2000 Waiver
“Fuzhou Chaoda”	Fuzhou Chaoda Modern Agriculture Development Company Limited (福州超大現代農業發展有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
“Fujian Chaoda Trading”	Fujian Chaoda Agricultural Produce Trading Company (福建超大農業產品銷售有限公司), a limited company established in the PRC and in which Fujian Chaoda Group holds a 60% equity interest
“Fujian Chaoda Group”	Fujian Chaoda Group Limited (福建超大集團有限公司), a limited liability company established in the PRC owned as to 95% by Mr. Kwok and 5% by Madam Chiu

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board to be established for the purpose of reviewing the Transactions
“Independent Shareholders”	Shareholders other than Mr. Kwok and his associates
“Kailey Investment”	Kailey Investment Ltd, a company incorporated with limited liability in the British Virgin Islands and owned as to 80% by Mr. Kwok, which holds approximately 50.82% of the issued share capital of the Company as at the date of this announcement
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Madam Chiu”	Madam Chiu Na Lai, a Director and an associate of Mr. Kwok
“Mr. Kwok”	Mr. Kwok Ho, a Director and the controlling shareholder of the Company
“2002 NTA”	the unaudited net tangible assets of the Company of approximately RMB2,444,259,000 as at 31 December, 2002
“2003 NTA”	the audited net tangible assets of the Company of approximately RMB2,896,489,000 as at 30 June, 2003
“Organic Fertilisers Supply Agreement”	the organic fertilisers supply agreement dated 1 December, 2000 and made between Fuzhou Chaoda and Fujian Chaoda Trading, the detailed terms of which are set out in the paragraph headed “Purchase of organic fertilisers” under the section headed “Connected transactions” on pages 87 and 88 of the Prospectus
“Plant Growth Regulators Supply Agreement”	the plant growth regulators supply agreement dated 1 December, 2000 and made between Fuzhou Chaoda and Fujian Chaoda Trading, the detailed terms of which are set out in the paragraph headed “Purchase of plant growth regulators” under the section headed “Connected transactions” on pages 88 and 89 of the Prospectus
“PRC”	People’s Republic of China
“Prospectus”	the prospectus dated 5 December, 2000 issued by the Company in relation to the listing of the Shares on the Stock Exchange in December 2000
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the ongoing transactions entered into by the Group from time to time pursuant to the Agreements after Expiry Date

“2000 Waiver”

the waiver granted to the Company by the Stock Exchange on 20 December, 2000 in respect of various ongoing connected transactions entered into between the Group and associates of Mr. Kwok (including transactions to be conducted pursuant to the Agreements) from strict compliance with the requirements of disclosure by press notice and circular to Shareholders and Independent Shareholders’ approval under Chapter 14 of the Listing Rules, details of which are set out on pages 91 to 93 of the Prospectus

By order of the Board

**Kwok Ho**

*Chairman*

Hong Kong, 11 December, 2003

Please also refer to the published version of this announcement in The Standard.