



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)

ANNOUNCEMENT OF UNAUDITED CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2002

The Board of Directors of Chaoda Modern Agriculture (Holdings) Limited (the “Company”) is pleased to present the unaudited results for the six months ended 31st December, 2002 of the Company and its subsidiaries (collectively the “Group”). The consolidated profit and loss account of the Group for the six months ended 31st December, 2002 is unaudited and condensed, along with selected explanatory notes, are set out below and have been reviewed by the Company’s audit committee:

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31st December, 2002

		Six months ended 31st December,	
	Note	2002 RMB'000	2001 RMB'000
Turnover			
Sales of crops		627,327	452,067
Sales of livestock		13,286	8,240
Sales from operations of supermarkets and dedicated sales outlets		10,502	1,094
		<u>651,115</u>	<u>461,401</u>
Cost of sales		<u>(199,384)</u>	<u>(115,815)</u>
Gross profit		451,731	345,586
Other revenues		6,437	9,424
Selling and distribution expenses		(61,464)	(40,673)
General and administrative expenses		(45,748)	(24,608)
Research expenses		(15,770)	–
Net other operating (expenses)/income		<u>(13,524)</u>	<u>1,056</u>
Operating profit	4	321,662	290,785
Finance costs		(5,053)	(920)
Share of results of associated companies		<u>3,672</u>	<u>619</u>
Profit before taxation		320,281	290,484
Taxation	5	<u>(48,095)</u>	<u>–</u>
Profit after taxation		272,186	290,484
Minority interests		<u>718</u>	<u>–</u>

Profit for the period		<u>272,904</u>	<u>290,484</u>
Earnings per share	6	<u>RMB14.2 cents</u>	<u>RMB17.4 cents</u>
Dividends	7	<u>182,490</u>	<u>148,654</u>

NOTES TO THE CONDENSED ACCOUNTS

1. Basis of preparation

These unaudited condensed consolidated profit and loss account is prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 (revised), Interim Financial Reporting, issued by the Hong Kong Society of Accountants (as applicable to condensed accounts) and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) issued by The Stock Exchange of Hong Kong Limited.

These condensed profit and loss accounts should be read in conjunction with the annual accounts for the year ended 30th June, 2002.

2. Principal Accounting Policies

The accounting policies and methods of computation used in the preparation of the condensed consolidated profit and loss accounts are consistent with those used in the annual accounts for the year ended 30th June, 2002 except that the Group has changed certain of its accounting policies following its adoption of the following new or revised SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised)	Presentation of financial statements
SSAP 11 (revised)	Foreign currency translation
SSAP 15 (revised)	Cash flow statements
SSAP 25 (revised)	Interim financial reporting
SSAP 34	Employee benefits

The adoption of the above new or revised SSAPs has no material impact on the Group’s consolidated profit and loss accounts for the six months ended 31st December, 2001 and 2002.

3. Segment information

The Group is principally engaged in the growing and sales of crops, breeding and sales of livestock and operations of supermarkets and dedicated sales outlets (“DSO”). The Group commenced its operation of supermarkets in the current period. The results of the major business activities for the six months ended 31st December, 2002 and 2001 are summarised below:

For the six months ended 31st December, 2002

	Growing and sales of crops RMB’000	Breeding and sales of livestock RMB’000	Sales from operations of supermarkets and DSO RMB’000	Total RMB’000
Turnover	627,327	13,286	10,502	651,115
Cost of sales	<u>(184,839)</u>	<u>(5,330)</u>	<u>(9,215)</u>	<u>(199,384)</u>
Gross profit	442,488	7,956	1,287	451,731

Unallocated items:–

Other revenues	6,437
Selling and distribution expenses	(61,464)
General and administrative expenses	(45,748)
Research expenses	(15,770)
Net other operating expenses	<u>(13,524)</u>

Operating profit	321,662
Finance costs	(5,053)
Share of results of associated companies	3,672
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Profit before taxation	320,281
Taxation	(48,095)
Minority interests	718
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Profit for the period	<u>272,904</u>

For the six months ended 31st December, 2001

	Growing and sales of crops RMB'000	Breeding and sales of livestock RMB'000	Sales from operations of DSO RMB'000	Total RMB'000
Turnover	452,067	8,240	1,094	461,401
Cost of sales	<u>(110,875)</u>	<u>(4,123)</u>	<u>(817)</u>	<u>(115,815)</u>
Gross profit	341,192	4,117	277	345,586

Unallocated items:–

Other revenues	9,424
Selling and distribution expenses	(40,673)
General and administrative expenses	(24,608)
Net other operating income	<u>1,056</u>
Operating profit	290,785
Finance costs	(920)
Share of results of associated companies	619
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Profit before taxation	290,484
Taxation	–
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Profit for the period	<u>290,484</u>

There are no sales transactions between the business segments.

Growing and sales of crops is the Group's primary operation. The turnover, operating profits and total assets attributable to this business segment accounted for over 90% of the Group's consolidated totals for the periods ended 31st December, 2002 and 2001. Consequently, no other segment analysis by business activities is presented.

The Group's operations are primarily in the People's Republic of China ("PRC") and the Group's sales, gross profits and total assets attributable to other geographical areas are both less than 10% of the Group's consolidated totals. Consequently, no geographical segment analysis is presented.

4. Operating profit

Operating profit is stated after (crediting)/charging the following:

	Six months ended 31st December,	
	2002 RMB'000	2001 RMB'000
Crediting		
Amortisation of negative goodwill	(4,068)	(4,068)
Interest income	(5,271)	(9,424)
Charging		
Depreciation of owned fixed assets	22,563	6,242
Operating lease expenses		
– land and buildings	20,242	13,749
– motor vehicles	296	194
Staff costs	59,911	40,169
Amortisation of deferred development costs	1,575	1,187
Amortisation of long-term prepaid rental	5,263	3,291
Amortisation of computer software cost	9,667	–
Research expenses	15,770	–
Loss on disposal of fixed assets	4,034	–

5. Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

		Six months ended 31st December,	
	Note	2002 RMB'000	2001 RMB'000
PRC income tax	(i)	47,820	–
Hong Kong profits tax	(ii)	–	–
		<u>47,820</u>	<u>–</u>
Share of taxation attributable to associated company	(iii)	<u>275</u>	<u>–</u>
		<u><u>48,095</u></u>	<u><u>–</u></u>

- (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 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 and the Chinese National Supply and Sales General Cooperative (中華全國供銷合作總社), domestic PRC State-Level Agricultural Leading Enterprises are entitled to certain tax benefits including full exemption of income tax. However, as Fuzhou Chaoda is a foreign investment enterprise, the Group is currently in discussion with the State of Administration of Taxation and Fujian State Tax bureau (Collectively, “Tax Bureaus”) to ascertain the tax benefit entitled by Fuzhou Chaoda and whether these tax benefits will also be applied to other PRC subsidiaries comprising the Group. Pending the outcome of the discussion between the management and the Tax Bureaus, it is currently uncertain whether the Group will be entitled to full income tax exemption in respect of the periods prior to the Group being qualified as State-Level Agricultural Leading Enterprise and in the future. As a result, the Group has followed the tax rules and made a provision for PRC income tax of approximately RMB47.8 million in the consolidated profit and loss account for the six months ended 31st December, 2002 and the accumulated income tax provision in the consolidated balance sheet amounted to approximately RMB140.9 million as at 31st December, 2002. Should the exemption of income tax be granted, the accumulated income tax provision of approximately RMB140.9 million will be subject to write back as an income item in the profit and loss account.

- (ii) No provision for Hong Kong profits tax has been made as there are no estimated assessable profits for the subsidiary operated in Hong Kong during the period.
- (iii) It represents the share of PRC income tax charged at a reduced tax rate of 7.5% on the assessable profits of Lucky Team Biotech Development (Hepu) Limited, a wholly owned subsidiary of the Group's 49% owned associated company.

6. Earnings per share

The calculation of the earnings per share is based on the Group's profits for the period of RMB272,904,000 (2001: RMB290,484,000) and the weighted average number of 1,918,448,413 (2001: 1,669,565,217) shares in issue during the period.

7. Dividends

		Six months ended 31st December,	
	<i>Note</i>	2002 RMB'000	2001 RMB'000
2001/2002 final, declared, of HK\$0.09 per share (2000/2001 final, paid HK\$0.073 per share)	(a)	<u>182,490</u>	<u>148,654</u>

Notes:

- (a) At the annual general meeting held on 11th December, 2002, final dividends for the year ended 30th June, 2002 of HK\$0.09 per share (2000/2001: final of HK\$0.073 per share) was declared and paid during the period. The amount was reflected as appropriations of retained earnings for the six months ended 31st December, 2002.
 - (b) The directors do not recommend the payment of an interim dividend for the six months ended 31st December, 2002.
8. During the period, the Company repurchased 4,938,000 of its own shares on The Stock Exchange of Hong Kong Limited and details of the repurchase are shown below:

Month of repurchase	Number of shares	Price per share paid		Aggregate price paid	
		Highest HK\$	Lowest HK\$	HK\$'000	RMB'000
November 2002	4,938,000	1.22	1.17	5,951	6,301

The repurchased shares were cancelled during the period and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of RMB5,778,000 has been charged to the share premium account. An amount equivalent to the par value of the shares cancelled has been transferred from retained profits of the Company to the capital redemption reserve.

9. Subsequent event

The Group has the following significant events subsequent to the period end:

- a. In January 2003, the Group drew down US\$30,000,000 from a syndicate of banks.
- b. Pursuant to the share option scheme of the Company adopted on 19th June, 2002, options were granted to the following persons subsequent to the period end:
 - (i) Mr. Kwok Ho, Chairman and executive director of the Company, and Madam Chiu Na Lai, executive director of the Company and associate of Mr. Kwok to subscribe for 60,000,000 and 5,000,000 ordinary shares of the Company respectively;
 - (ii) 2 other executive directors to subscribe for 7,000,000 ordinary shares of the Company; and
 - (iii) 10 employees to subscribe for 13,500,000 ordinary shares of the Company.

The grantees are entitled to exercise their options at a price of HK\$1.66 per share during the periods commencing on 1st July, 2003 which will expire on the last day of ten years from the date of grant of the options.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Financial Performance

For the six months ended 31st December, 2002, turnover of the Group amounted to RMB651,115,000, representing an increase of 41% over the same period last year, while gross profit margin was 69%. The 2 years tax holidays enjoyed by the Group had lapsed in 2001, so the Group was required to provide for PRC income tax at a reduced tax rate of 15%, and to provide for tax for associated companies with an aggregate amount of RMB48,095,000. Profit before PRC income taxation for the period was RMB320,281,000, representing an increase of 10% over the same period last year. Net profit margin for the period was 42%.

Increase in turnover was mainly due to the extension of sales networks to high consumption cities and the enhancement of major sales networks, that led to an increase in sales to 272,600 tones of agricultural products for the current period as compared with 187,000 tones recorded in the same period last year. Although the average market price of vegetables in China dropped by approximately 10% in 2002, the Group recorded substantial growth of over 46% and 41% respectively in sales volume and sales amount during the period. This demonstrates that the Group's products have high quality and are superior to products alike.

Production Bases

The aggregate area of the Group's farmland in China increased from 92,629 mu (6,175 hectares) as at 31st December, 2001 to 131,675 mu (8,778 hectares) as at 31st December, 2002, representing an increase of 42%. It also represented an increase of 9% as compared with the 120,725mu (8,048 hectares) as at 30th June 2002. The Group in total operated 35 production bases covering 12 various provinces and cities in China, including Shannxi, Hainan, Liaoning, Fujian, Shandong, Guangdong, Jiangsu, Zhejiang, Hubei, Beijing, Shanghai and Tianjin.

Sales Performance

As at 31st December, 2002, the major sales channels of the Group were wholesale and export sales, which accounted for 62% and 32% respectively of the Group's total turnover. With the increasing demand for high quality vegetables from domestic and exporting markets, the Group will continue to focus on promoting sales in high consumption cities in order to achieve a higher profit margin. Regarding export business, as Japan is the major importing country of China, the Group's subsidiary in Japan has commenced operation at the end of 2002. The Group believes that the establishment and development of the subsidiary in Japan will bring positive contributions to the expansion of the Group's export business. The project for "Agricultural Trading Markets into Supermarkets", which has already been encouraged by the PRC local Government, was also implementing step by step. As at 31st December, 2002, 5 supermarkets have commenced operation during the period under review. Chaoda's project for "Agricultural Trading Markets into Supermarkets" provided an abutment for agricultural by-products produced in the production bases and their sales in supermarkets, and realized the "one step" delivery of the agricultural products from farmlands to the sales points. Consumers could now fully enjoy fresh and high quality products and upgrade living standards as a result of the speedy modernised logistics system.

Investment Projects Performance

Performance of the Group's major investment projects during the period under review are summarized as follows:

- a. As at 31st December 2002, the Group's farmland has increased by 39,046 mu, representing an increase of 42% as compared to 31st December 2001. During the year, construction of infrastructure and facilities were carried out on the production bases on a much larger scale, together with active high quality seeds selection and the storage of seeds for Spring. The farmland is expected to have very good harvest in the second half of the current financial year.
- b. Export sales of vegetables to the Asian region recorded a continuous growth, in which Japan being the major importing country. In view of such business opportunities, the Group established its subsidiary in Tokyo, Japan in August 2002. The formation of the new subsidiary is expected to strengthen the Group's export sales and the name of Chaoda to the international market.
- c. As at 31st December 2002, the Group has started implementing Chaoda's project for the "Agricultural Trading Markets into Supermarkets", and established 5 supermarkets in Fuzhou to increase the sales points of its products. This substantially strengthen the end-user base and the sales networks of Chaoda. This core project will be carried out step by step in 2003 to further enhance customer recognition of the "products" brand of "Chaoda".

- d. As at 31st December 2002, the Group has started the cultivation of green organic tea on the tea plantations developed in Fujian in the early stage, which was intended to be a first class domestic production base of organic tea. Tea is a cultural art of China for a long history, and tea is a daily necessity product in China especially the demand for high quality teas. With the vast room of market development in advanced countries in Europe and America and the initial trend of organic tea consumption domestically, the market prospect of organic tea is extremely promising.

PROSPECTS

As agriculture plays a very important role in the PRC's fast going economy and the 1.3 billion population of China guarantees a huge consumer market, wherein food consumption takes a significant share. The management strongly believes that, alongside with the steady development and growth of China's economy as well as the improvement of living standard and education level of the Chinese citizen, the demand for Chaoda's organic, green, healthy and high quality vegetables and fruits from the Chinese consumers will rise enormously.

The development of agriculture in the nation was given the higher priority on the agenda, reflecting that the PRC Government pays great attention to the rural reform and the agricultural modernization. China's admission to WTO even further demonstrates Chaoda's superior cost advantage over vegetable farming that requires intensive laboring, which, in addition to Chaoda's leading edge in organic and green agricultural technology, will lead to a rapid increase in export demand and bring infinite opportunity to Chaoda.

Infrastructural construction (such as irrigation works and road construction etc) on production bases and agricultural facilities (such as greenhouse facilities, scaffolding facilities, etc.) are the foundation of agricultural modernization. Perfect irrigation works and road construction guarantee normal production for modern agriculture and ensure good harvest and nice quality. Advanced agricultural facilities help control temperature and moisture so as to protect the farm plants during growing stage from adverse influence under bad weather and are the best means to fight against natural disaster. These facilities allow the Group to supple various agricultural produce round the year, increase production and improve harvest ratio, as well as further enhance the Group's competitiveness and operation efficiency.

Processed food only account for 30% of the PRC's total agricultural output while it is as high as 60% or above in developed countries. The management believes that by developing food processing industry the business scope of Chaoda could be widely expanded. It thus determined to jointly establish processing factories with a number of international enterprises so as to acquire their experience and advanced technology. The factories will depend on the agricultural produce grown by Chaoda as the major raw materials and strictly follows such ISO manufacturing and processing standards as the Hazardous Analysis Critical Control Point ("HACCP") and Good Manufacturing Practice ("GMP"). The new added processing factories can enhance the publicity of the Chaoda brand and add value to its agricultural product. It also serves to help Chaoda diversify and penetrate the vegetables and fruits market and meet the huge demand from the export sector and strengthen Chaoda's share in the international market.

Agricultural technology changes everyday. New technology and new products are something equivalent to the life of an enterprise. With an open-minded attitude, the Group actively engaged in the R&D and application of new technology and new products. The Group highly valued the continual development of advance technology while constructing specific science and technology park, The Group also set up testing place in the production bases to enhance industrialization of scientific research. This not only reduce production costs of vegetables and fruits, but also enrich the variety of the Group's products, and effectively enhance the productivity, quality and competitiveness of organic green vegetables and fruits, thus bring about fruitful rewards.

China is basically an agricultural country. People who have combined knowledge in agricultural technology, management and operation are highly demanded by enterprises. The Group provides in-house training to its employees, giving every employee an opportunity for further study and self-improvement. The Group also recruits personnel who are well-experienced in farming, management and operation from time to time. Seeking competent people fervently can be regarded as part of the corporate culture of the Group. A growing enterprise needs continuous replenishment of competent people, which will serve as a supporting force for the advancement of the enterprise.

"Chaoda Model" was highly recognized by various strata of the society immediately after introduced. The Group was granted the "State-level Agricultural Leading Enterprise"(農業產業化國家重點龍頭企業) during the joint session of the PRC Agricultural Industrialization Meeting(中國農業產業化聯席會議)held in December 2002. The management expects that by setting forth the "Chaoda Model" into the international market and expanding the scope of agricultural development of the Group, its profit can be enhanced.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has maintained a solid financial position to underpin its operation. As at 31st December, 2002, the Group had cash and bank balances amounting to RMB661,920,000, and total borrowings of RMB175,173,000. The Group generated strong cash flows from operations for the six months ended 31st December, 2002. Net cash inflow from operations for the period was RMB386,667,000 compared to RMB265,318,000 for the last corresponding period.

In January 2002, the Group entered into an agreement (the “Loan Agreement”) relating to loan facility of up to US\$50,000,000 (the “Loan”) with, inter alia, a syndicate of banks. The interest rate is at London Inter-Bank Offered Rate plus 1.875%. The Loan will be made available to the Company by way of a revolving loan facility during the 12 month period after the date of the Loan Agreement, and any principal amount of the Loan outstanding as at the date falling 12 months after the date of the Loan Agreement will automatically be converted into a term loan with a final repayment date falling 36 months after the date of the Loan Agreement. As at 31st December, 2002, the Group has an un-utilized banking facilities amounting to US\$30,000,000. Such facility was subsequently utilized on 3rd January, 2003, when the Company further drew down the US\$30,000,000.

As at 31st December, 2002, the Group’s gearing ratio was 6.2%. This is based on the division of total borrowing by total assets. Additionally, the Group’s liquidity ratio is 3.2, reflecting the presence of sufficient financial resources.

Since the exchange rate fluctuation between the Hong Kong dollar and Renminbi is very small, the foreign exchange risk is very low and no hedging has been carried out.

STAFF AND REMUNERATION POLICIES

As at 31st December, 2002, the Group employed 10,557 staff member, of which 8,136 are workers on the Group’s farmlands. Employee 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.

The share option scheme adopted by the Company on 19th June, 2002 provided that the Board of Directors may grant options to any participant (as defined in the share option scheme) to subscribe for the shares of the Company pursuant to the provisions of the scheme. Pursuant to the share option scheme, option were granted to Directors and Employees subsequent to the period end as follows:

Directors	Date of Grant	Exercise Period	Exercise Price Per Share (HK\$)	No of Share in respect of Options
Kwok Ho	28/1/2003	1/7/2003-27/1/2013	1.66	20,000,000
		1/7/2004-27/1/2013	1.66	20,000,000
		1/7/2005-27/1/2013	1.66	20,000,000
Ip Chi Ming	28/1/2003	1/7/2003-27/1/2013	1.66	5,000,000
Lee Yan	28/1/2003	1/7/2003-27/1/2013	1.66	2,000,000
Chiu Na Lai	28/1/2003	1/7/2003-27/1/2013	1.66	5,000,000
Employees	28/1/2003	1/7/2003-27/1/2013	1.66	13,500,000

CORPORATE GOVERNANCE

The Group endeavours to maintain a high corporate governance level and to enhance its transparency. The Group decides to strengthen communications with its shareholders and investors so as to ensure every major decision making will be accountable to the shareholders and will be in the interest of all shareholders.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31st December, 2002 (2001: Nil).

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the period, the Company purchased 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 of Hong Kong Limited (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 six months ended 31st December, 2002.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive directors of the Company, namely, Mr. Wong Kong Chi and Professor Lin Shun Quan. 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 matters including the review of the condensed accounts. The Group's independent auditors, PricewaterhouseCoopers and Charles Chan, Ip & Fung CPA Ltd. have carried out a review of the unaudited interim accounts in accordance with the Statement of Auditing Standards 700 issued by Hong Kong Society of Accountants.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period for the six months ended 31st December, 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

PUBLICATION OF FURTHER INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the Board

Kwok Ho
Chairman

Hong Kong, 24th March, 2003

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