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 31 DECEMBER 2003

HIGHLIGHTS

Turnover increased by 31.8% to RMB858 million.

EBITDA increased by 29.1% to RMB454 million.

Net Profit increased by 47.5% to RMB403 million.

The Board of Directors (the "Board") of Chaoda Modern Agriculture (Holdings) Limited (the "Company" or "Chaoda") is pleased to present the unaudited results for the six months ended 31 December 2003 of the Company and its subsidiaries (collectively the "Group"). The consolidated income statement of the Group for the six months ended 31 December 2003 is unaudited and condensed, along with selected explanatory notes, are set out below and have been reviewed by the Company's audit committee together with the Company's independent auditors, Charles Chan, Ip & Fung CPA Ltd.:

UNAUDITED CONSOLIDATED INCOME STATEMENT
For the six months ended 31 December 2003

		Six months ended 31 December	
		2003	2002
	Notes	***RMB'000***	*RMB'000*
Turnover			
Sales of crops		**774,495**	627,327
Sales of livestock		**19,557**	13,286
Supermarkets chain operation		**64,346**	10,502
		858,398	651,115
Cost of sales		**(298,246)**	(199,384)
Gross profit		**560,152**	451,731
Other revenues		**8,002**	6,437
Selling and distribution expenses		**(83,542)**	(61,464)
General and administrative expenses		**(50,291)**	(45,748)
Research expenses		**(14,650)**	(15,770)
Net other operating expenses		**(18,294)**	(13,524)
Operating profit	*4*	**401,377**	321,662
Finance costs		**(8,595)**	(5,053)
Share of results of associates		**10,130**	3,672
Profit before taxation		**402,912**	320,281
Taxation	*5*	**(760)**	(48,095)
Profit after taxation		**402,152**	272,186
Minority interests		**400**	718
Profit for the period		**402,552**	272,904
Earnings per share			
Basic	*6(i)*	**RMB20.92 cents**	RMB14.2 cents
Diluted	*6(ii)*	**RMB20.71 cents**	N/A
Dividends	*7*	**—**	182,490

NOTES TO THE CONDENSED ACCOUNTS

1. Basis of preparation

The unaudited condensed consolidated income statement 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.

The condensed consolidated income statement should be read in conjunction with the annual accounts for the year ended 30 June 2003.

2. Principal Accounting Policies

The accounting policies and methods of computation used in the preparation of the condensed income statement is consistent with those used in the annual accounts for the year ended 30 June 2003 except that the adoption of the SSAP 12 (Revised) income taxes issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2003.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In the previous period, partial provision was made for deferred tax using the income statement liability method, whereby a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The adoption of the above new SSAP has no material impact on the Group's consolidated income statement for the six months ended 31 December 2003 and 2002.

3. Segment information

The Group is principally engaged in the growing and sales of crops, breeding and sales of livestock, and supermarkets chain operation. The results of the major business activities for the six months ended 31 December 2003 and 2002 are summarised below:

For the six months ended 31 December 2003

	Growing and sales of crops	**Breeding and sales of livestock**	**Supermarkets chain operation**	**Inter-segment elimination**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Turnover	776,279	19,557	64,346	(1,784)	858,398
Cost of sales	(238,179)	(4,207)	(57,644)	1,784	(298,246)
Gross profit	538,100	15,350	6,702	—	560,152
Unallocated items:					
Other revenues					8,002
Selling and distribution expenses					(83,542)
General and administrative expenses					(50,291)
Research expenses					(14,650)
Net other operating expenses					(18,294)
Operating profit					401,377
Finance costs					(8,595)
Share of results of associates					10,130
Profit before taxation					402,912
Taxation					(760)
Minority interests					400
Profit for the period					402,552

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.

For the six months ended 31 December 2002

	Growing and sales of crops	Breeding and sales of livestock	Supermarkets chain operation	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	627,327	13,286	10,502	651,115
Cost of sales	(184,839)	(5,330)	(9,215)	(199,384)
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				(13,524)
Operating profit				321,662
Finance costs				(5,053)
Share of results of associates				3,672
Profit before taxation				320,281
Taxation				(48,095)
Minority interests				718
Profit for the period				272,904

There are no sales transactions between the business segments.

Growing and sales of crops is the Group's primary business segment. The Group's turnover, operating profits and total assets attributable to this business segment accounted for over 90% of the Group's corresponding consolidated totals for the periods ended 31 December 2003 and 2002. Consequently, no further segment information by business activity is presented.

The Group's operations are primarily in the People's Republic of China (the "PRC") and the Group's turnover, gross profits and total assets attributable to other geographical areas are less than 10% of the Group's corresponding consolidated totals for the periods ended 31 December 2003 and 2002. Consequently, no segment information by geographical area is presented.

4. Operating profit

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

	Six months ended 31 December	
	2003	2002
	RMB'000	*RMB'000*
Crediting		
Amortisation of negative goodwill	**(4,068)**	(4,068)
Interest income	**(3,250)**	(5,271)
Charging		
Depreciation of owned fixed assets (net of amount capitalised in inventories)	**36,287**	22,563
Operating lease expenses		
— land and buildings	**21,982**	20,242
— motor vehicles	**193**	296
Staff costs	**66,995**	59,911
Amortisation of deferred development costs	**1,309**	1,575
Amortisation of long-term prepaid rentals	**8,688**	5,263
Amortisation of computer software development cost	**9,804**	9,667
Amortisation of deferred expenditure	**3,361**	—
Research expenses	**14,650**	15,770
Loss on disposal of fixed assets	**2,317**	4,034
Bad debts written off	**342**	—

5. Taxation

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

		Six months ended 31 December	
		2003	2002
	Note	***RMB'000***	*RMB'000*
PRC income tax	*(i)*	**—**	47,820
Hong Kong profits tax	*(ii)*	**—**	—
		—	47,820
Share of taxation attributable to an associated company	*(iii)*	**760**	275
		760	48,095

Notes:

(i) Fuzhou Chaoda Modern Agriculture Development Company Limited ("Fuzhou Chaoda"), the Group's principal subsidiary, was awarded as "State-Level Agricultural Leading Enterprise" of the nation by the central government of the People's Republic of China 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.

(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.

(iv) Deferred taxation

Deferred tax assets are to be recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

The unrecognised deferred tax assets in respect of tax losses amounted to RMB7,434,000 (as at 30 June 2003 RMB7,438,000).

6. Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share is based on the Group's profits for the period of RMB402,552,000 (2002: RMB272,904,000) and the weighted average number of 1,924,494,609 (2002: 1,918,448,413) shares in issue during the period.

(ii) Diluted earnings per share

The calculation of diluted earnings per share is based on the Group's profits for the period of RMB402,552,000 (2002: N/A) and the weighted average number of 1,943,860,901 (2002: N/A) shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

(iii) Reconciliations

	Six months ended 31 December	
	2003	2002
Weighted average number of ordinary shares used in calculating basic earnings per share	**1,924,494,609**	—
Deemed issued of ordinary shares	**19,366,292**	—
Weighted average number of ordinary shares used in calculating diluted earnings per share	**1,943,860,901**	—

7. Dividends

	Six months ended 31 December	
	2003	2002
	RMB'000	*RMB'000*
2003: Nil (2002:2001/2002 final, paid HK$0.09 per share)	**—**	182,490

The directors do not recommend the payment of an interim dividend for the six months ended 31 December 2003 (2002: Nil).

8. Subsequent events

(i) A placing agreement was entered into on 15 January 2004 pursuant to which the placing agent had agreed to place, on a fully underwritten basis, 280,000,000 existing shares held by Kailey Investment Ltd., the ultimate holding company. The placing was made to independent professional, institutional and other investors at the placing price of HK$2.50 (equivalent to RMB2.647) per placing share.

(ii) The bonus issue announced by the Company on 21 October 2003 had been approved at the Annual General Meeting on 19 December 2003 and the 97,145,600 bonus shares issued pursuant to the bonus issue commenced dealing on 16 January 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Financial Review

For the six months ended 31 December 2003, turnover and profit for the period of the Group amounted to approximately RMB858,398,000 and RMB402,552,000 respectively, representing an increase of 31.8% and 47.5% as compared to the same period last year. Sales of crops has increased in volume from 272,600 tonnes to 319,600 tonnes.

Although some of our production bases suffered from natural disasters, for instance, high temperature, drought and flood, the Group has an efficient production management and effective counter-seasonal production that we achieved fruitful results in our business. Increase in turnover and profit for the period was a proof of the Group's achievement of short-term objectives as stated in the latest published Annual Report. We focused very much on the effectiveness of the matching process of the production plan with the sales demand. This included, among others, the aggressive canvass of direct order for cultivation sales and the strategy of closely tracking the establishment of sales network by the numerous overseas joint-venture supermarkets in the PRC through which we delivered our agricultural produce of excellent quality. By doing so, we strive to increase the Group's market share and strengthen its profit-generating capabilities.

Production Bases

The aggregate area of the Group's farmland in the PRC increased from 131,675 mu (8,778 hectares) as at 31 December 2002 to 165,415 mu (11,028 hectares) as at 31 December 2003, representing an increase of 25.6%. It also represented an increase of 6.5% as compared with 155,315 mu (10,354 hectares) as at 30 June 2003. The Group in total operated 36 production bases covering 13 various provinces and cities in China, including Fujian, Jiangsu, Shaanxi, Hainan, Guangdong, Shandong, Liaoning, Zhejiang, Hubei, Jiangxi, Shanghai, Beijing and Tianjin.

Sales Performance

Growing and sales of crops for the six months ended 31 December 2003 accounted for 90.2% of total turnover, while breeding and sales of livestock and supermarkets chain operation accounted for 2.3% and 7.5% respectively. There had not been any material change to the sales mix by product.

Domestic sales of crops represented 69% for the six months ended 31 December 2003 while export sales of crops (by means of direct sales to overseas customers and local sales by delivery to PRC trading companies) took up the remaining 31%. There had not been any material change to the sales mix by market.

The gross profit margin in the growing and sales of crops, being the principal business of the Group, was 69.5% as compared to the same period last year of 70.5%. The overall gross profit margin of the Group was 65.3% as compared to the same period last year of 69.4%. The decrease in overall gross profit margin of the Group was attributable to the change in sales mix arising from the supermarkets chain operation (which normally has a much lower margin than that of the growing and sales of crops). There were altogether 7 supermarkets in operations and they are all located in Fuzhou.

Selling and distribution expenses and general and administrative expenses for the six months ended 31 December 2003 represented approximately 9.7% and 5.9% respectively, as compared to the same period last year of 9.4% and 7.0% respectively. The percentage change in the selling and distribution expenses was immaterial. The decrease in the general and administrative expenses was attributable to the serious financial management and the attitude of treasuring the Group's financial resources by the management of the Group.

The pre-tax profit margin for the six months ended 31 December 2003 was 46.9%, as compared to the same period last year of 49.2%. The decrease in pre-tax profit margin of the Group was attributable to the change in sales mix arising from the supermarkets chain operation (which normally has a much lower margin than that of the growing and sales of crops). Net profit margin was 46.9%, as compared to the same period last year of 41.9%. The increase in net profit margin was due to the fact that the Group was awarded as "State-Level Agricultural Leading Enterprise" of the nation by the central government of the PRC and entitled to the tax benefits of full exemption of income tax. Except the share of taxation attributable to an associated company, there was no other tax provision made during the period.

PROSPECTS

The central government of the PRC issued in early Year 2004 a so-called "No. 1 Document". In the No. 1 Document, it stated that "Leading (or "Dragon Head") enterprises, no matter under what type of ownership, will obtain support from the government in terms of financing, taxation, etc. as long as they are able to bring benefits to farmers...". No. 1 Document is an encouragement and a driving force of Chaoda.

Looking ahead, under the policy of the central government of the PRC, the emergence of increasing number of market participants or competitors is expected to involve in the ecologically grown agricultural industry. As one of the pioneers in the ecologically grown agricultural industry in the PRC, Chaoda will continue to strive for the optimization of its business model. In the past few years, the Group has established production bases in 13 provinces and cities in the mainland China. In the future, Chaoda will further develop its production bases. With its home base in Fujian Province, Chaoda will grasp the opportunity to establish production bases in those provinces or cities with high economic growth. This helps to meet the ever-increasing demand of ecologically grown, green and healthy vegetables and fruits of those provinces and cities. Besides, Chaoda will give priority to develop its production bases nearby those existing ones. This helps to strengthen our production capacity of existing production bases so as to fulfill the demand from the processing companies of agricultural produce, which in turn adds value to the agricultural produce.

Chaoda will also look for opportunities to expand its scope of agricultural development, to penetrate the diversified market demands of agricultural produce and to meet the huge export demand so as to increase its market share in the international market. We commit to do our very best in the expansion of production bases and the market penetration. Under such a favourable policy environment and market conditions, the Group will speed up its expansion plan by leveraging its first mover's advantage so as to solidify its leadership in the agricultural industry in the PRC.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has maintained a solid financial position to underpin its operation. As at 31 December 2003, the Group had cash and bank balances amounting to RMB417,457,000. The Group generated strong cash flows from operations for the six months ended 31 December 2003. Net cash inflow from operations for the period was RMB400,802,000 as compared to RMB386,667,000 for the same period last year.

As at 31 December 2003, the Group's gearing ratio was 1.6%. This is based on the division of total borrowings by total assets. Additionally, the Group's current ratio was 4.2 times, reflecting the presence of sufficient financial resources.

Since the exchange rate fluctuations between the Hong Kong dollar or United States dollar and Renminbi are immaterial, the foreign exchange risk is immaterial and no hedging has been carried out.

As at 31 December 2003, the Group had outstanding capital commitments amounting to RMB511,513,000, of which, commitments of RMB215,589,000 are contracted but not provided for, the remaining commitments of RMB295,924,000 have been authorised but not contracted for, in respect of the purchase of fixed assets and research and development expenditure. As at 31 December 2003, the Group did not have any material contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 31 December 2003, the Group employed 10,922 staff members, of which 8,535 were workers on the Group's farmlands. Employees' salaries are determined at a competitive level. Other staff benefits include the Hong Kong Mandatory Provident Fund, insurance, education subsidies, training programmes and share option scheme.

A share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed at the extraordinary general meeting of the Company held on 19 June 2002. During the six months period ended 31 December 2003, no options were granted to the relevant participants under the Share Option Scheme.

AUDIT COMMITTEE

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

The Audit Committee has reviewed with the Company's management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements of the Group during the six months ended 31 December 2003.

The Audit Committee meets at least twice each year to review the completeness, accuracy and fairness of the Group's financial statements and to consider the nature and scope of external audit reviews. It also assesses the effectiveness of the systems of internal control. Internal control systems have been designed to allow the Board of Directors to monitor the Company's overall financial position and to protect its assets. The purpose is to guard against material financial misstatement or loss. For the meetings of the Audit Committee in the year 2003/2004, the external auditors, the chief financial officer, the financial controller and the executive directors in charge of financial matters and operations of the Group attended the meetings to answer questions on the reports or their work.

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 31 December 2003 (2002: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2003.

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 31 December 2003, 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, 18 March 2004