

CHAODA



**CHAODA MODERN AGRICULTURE
(HOLDINGS) LIMITED**

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2002 /2003





Malan Production Base
Xian, Shaanxi Province

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BOARD OF DIRECTORS**Executive Directors:**

Kwok Ho (*Chairman*)
 Ip Chi Ming
 Chiu Na Lai
 Lee Yan
 Chan Hong
 Wong Hip Ying
 Fong Jao

Independent Non-executive Directors:

Fung Chi Kin
 Tam Ching Ho
 Lin Shun Quan

COMPANY SECRETARY

Lee Yuet Wor

SOLICITORS

Perkins Coie

AUDITORS

Charles Chan, Ip & Fung CPA Ltd.

PRINCIPAL BANKERS

Bank of China (Hong Kong) Ltd.
 The Hongkong and Shanghai Banking Corporation Limited
 Standard Chartered Bank
 Industrial and Commercial Bank of China (Asia) Limited
 CITIC Ka Wah Bank Limited
 CITIC Industrial Bank
 China Merchants Bank
 Fujian Industrial Bank

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

REGISTERED OFFICE

P.O. Box 309, Ugland House
 South Church Street
 George Town
 Grand Cayman
 Cayman Islands
 British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2705, 27th Floor
 China Resources Building
 26 Harbour Road
 Wanchai, Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Abacus Share Registrars Limited
 Ground Floor
 Bank of East Asia Harbour View Centre
 56 Gloucester Road
 Wanchai
 Hong Kong

WEBSITE

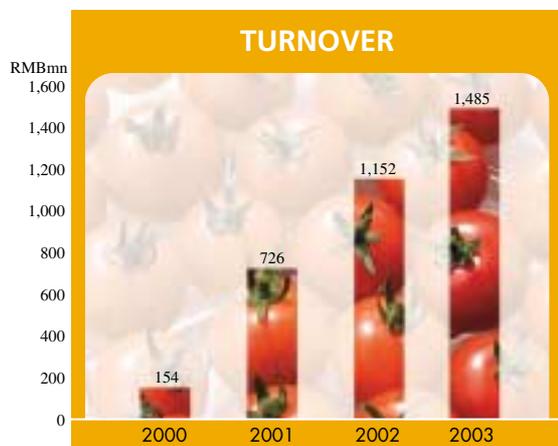
<http://www.chaoda.com>

STOCK CODE

682



	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	Increase/ (Decrease) %
OPERATING RESULTS			
Turnover	1,485,307	1,152,133	28.9%
Gross profit	993,790	851,957	16.6%
Net profit	725,134	621,924	16.6%
Gross profit margin	66.9%	73.9%	
Net profit margin	48.8%	54.0%	
Earnings per share	RMB38 cents	RMB35 cents	
FINANCIAL POSITION			
Total assets	3,520,011	2,677,623	31.5%
Cash and bank balances (including long-term bank deposits)	867,286	996,923	(13.0)%
Shareholders' funds	2,896,489	2,360,146	22.7%
FINANCIAL RATIOS			
Gearing ratio	13.2%	6.2%	
Current ratio	1.8	7.7	
Accounts receivable turnover (days)	17	19	
OPERATING DATA			
Year end area of production base (mu)	155,315	120,725	28.7%
Weighted-average area of production base during the year (mu)	97,678	74,556	31.0%
Annual output per mu (tonnes)	6.11	6.61	(7.6)%





CHAIRMAN'S STATEMENT



I am pleased to present the annual results of Chaoda Modern Agriculture (Holdings) Limited (the "Company" or "Chaoda") and its subsidiaries (collectively as the "Group") for the year ended 30 June 2003. This is the third annual results report since the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited on 15 December 2000.

OVERVIEW

During the three years under review, the Group has undergone tremendous changes. At the beginning of its fourth year, it is a moment for us to look back and evaluate, think about our direction and to formulate policies for our future development.

During the very first year for the Group to enter the capital market, with the support and devotion of worldwide investors and our shareholders, we were accepted as one of the composite shares of "Hang Seng Composite Index 200". We were also accredited as one of the "Worldwide Top 200 Small-sized Enterprises" and the "Best Newly-listed PRC Enterprise" by some International Magazines. It was not until the last year when a series of incidents relating to the PRC domestic enterprises has occurred and created misunderstandings about PRC domestic enterprises in the market, which in turn has impacted the passion on Chaoda. Nevertheless, we continued to adhere to our commitment and strived hard to meet the established business goals, including careful consideration on the acquisition of new agricultural land and the establishment of related irrigation and infrastructural facilities, commencement of scientific researches on the on-going development of advanced planting technologies and expansion of retail network. As a consequence, we achieved fruitful results in our business.

In the winter of 2002, China experienced the severest cold in the recent 50-odd years. There were frosts and snows even in Guangdong and Fujian Provinces. Large proportions of crops seedlings were damaged or their growth cycle was extended for more than 20 days. It affected the quantity of the crops yield of all the market players of agriculture industry. In the spring of 2003, the outbreak of SARS has adversely affected the operation of restaurants and the catering industry, which in turn affected their demand on our produce. It also brought transportation to a halt, thus dragging exports down. However, by adopting decisive measures and leveraging on our strong adaptability, we took various measures such as reallocation of produce to supermarkets and retail markets to mitigate our loss in sales. We also used our e-commerce model so-called the "Significant Customer Channel" to keep contact with our inter-provinces or overseas customers and made sales to them. As such, we have achieved such a fair results for the year despite the challenging business environment.





BUSINESS REVIEW

Financial Performance

For the year ended 30 June 2003, the Group's turnover and profits attributable to shareholders were approximately RMB1,485,307,000 and RMB725,134,000 respectively, an increase of 28.9% and 16.6% as compared with last year.

The increase in turnover was fuelled by the reinforced direct sales to overseas customers, and the sustained development of sales network targeting at cities with high purchasing power. Sales of crops increased from 493,000 tons last year to 597,000 tons this year. Leveraging on its ever-expanding sales network and its scientific research efforts, and founding on its existing ground of fruits and vegetables cultivation, the Group will diversify its product portfolio to the cultivation of edible fungi, organic tea, Chinese special excellent fruits, as well as the organic livestock husbandry and advanced processing of agricultural produce, with the ultimate aim of creating new profit growth points for the Group.



Production Base



The total agricultural land areas held by the Group in the PRC increased from 120,725 mu (8,048 hectares) on 30 June 2002 to 155,315 mu (10,354 hectares) on 30 June 2003. Apart from the increase in the scale of the Group's production base, the output per mu can be further increased through the adoption of advanced cultivation technologies and successful scientific researches such as three dimensional cultivation. As a result, the production cost can be reduced.

Sales Performance

The major sales channels adopted by the Group include wholesaling, direct sales to overseas customers and indirect export through export trading companies in the PRC. Domestic sales of crops and export sales of crops (direct and indirect) account for 68% and 32% of the Group's total turnover respectively.





PROSPECTS

Ever since its establishment, the business model of Chaoda ("Chaoda Model") has been built on the consolidation of farmlands for the production of organic and green vegetables and fruits. As a result, we have seen that the business model of "Chaoda" was gradually being optimized over the years. The brand name of "Chaoda" has also gained a high recognition in the market. The Group strongly believes that its foundation has been strengthened following the numerous hardships and challenges in the past three years. Looking ahead, as one of the pioneers in the agricultural industry in the PRC, Chaoda will strive to twist and turn the unfavourable environmental factors (such as cold currents, droughts, floods etc.) and the success factors for the enterprise (such as the insights into the existence of market, mastery in the active control of quality, timely engagement in the division of labor within the international market etc.) into the competitive advantages of the Group, so as to accomplish the goal of "To pioneer, forerun and excel". On the other hand, as a listed company in the capital market of Hong Kong, Chaoda will further increase the transparency of the enterprise and actively respond to the stringent regulation and supervision of the capital market. For this, we are ready to face the challenges ahead and are well-positioned to look forward to the bright future.



Short-term objectives

Founded on the success of Chaoda Model, it is in our plan for the year ahead to further focus on the effectiveness of the matching process of the production plan with the sales demand, as well as the aggressive canvass of direct order for cultivation sales from overseas customers and domestic trading companies. Moreover, with the strategy of closely tracking the establishment of sales network by the numerous overseas joint-venture supermarkets in the PRC, we strive to increase the Group's market share and reinforce its profit-generating capabilities through delivering our agricultural produce of excellent quality to these supermarkets.





Medium-term objectives

The Group has started developing a computerised information system to pave the road for its focal development of two-way logistics for the infiltration into the logistic and e-commerce industries. It is expected that the fundamental effective integrations between wholesale and retail, direct distribution and logistics, whether it is traditional market distribution channels or through virtual private network trading business, will be achieved within three to five years.

Long-term objectives

With the achievement of the abovementioned short- and medium-term objectives, a nationwide, diversified system for the production and circulation of agricultural produce will be within sight, and "Chaoda" will consequently turn into a "Kingdom of Green Vegetables and Fruits". We hope to contribute ourselves in solving the problems faced by the rural villages, agriculture industry and peasants.

APPRECIATION

I would like to thank the Board of Directors and Technology Advisory Committee for their valuable advice and effort. I would also like to thank our shareholders and business partners for their continued support, and to express my deepest gratitude to all staff for their devotion and hard work.

We have a strong customer base in many parts of China and our developing export countries. As a member of Chaoda family, I would like to thank them for their loyalty.

Kwok Ho

Chairman

21 October 2003





FINANCIAL REVIEW

The Group's turnover and profits attributable to shareholders for the year ended 30 June 2003 was approximately RMB1,485,307,000 and RMB725,134,000 respectively, representing an increase of 28.9% and 16.6% respectively, as compared to those of last year.

In the winter of 2002, China experienced the severest cold in the recent 50-odd years. There were frosts and snows even in Guangdong and Fujian Provinces. Large proportions of crops seedlings were damaged or their growth cycle was extended for more than 20 days. It affected the quantity of the crops yield of all the market players of agriculture industry. In the spring of 2003, the outbreak of SARS has adversely affected the operation of restaurants and the catering industry, which in turn affected their demand on our produce. It also brought transportation to a halt, thus dragging exports down. However, by adopting decisive measures and leveraging on our strong adaptability, we took various measures such as reallocation of produce to supermarkets and retail markets to mitigate our loss in sales. We also used our e-commerce model so-called the "Significant Customer Channel" to keep contact with our inter-provinces or overseas customers and made sales to them. As such, we have achieved such a fair results for the year despite the challenging business environment.

Turnover for the year increased by 28.9% from last year's figure of RMB1,152,133,000. The increase in turnover was fuelled by the reinforced direct sales to overseas customers, and the sustained development of sales network targeting at cities with high purchasing power. In respect of land areas, the weighted-average area of 97,678 mu for the year represents an increase of 31.0% from 74,556 mu for the last year. After enhancement work performed on the previously used land, the productivity is better improved and the sales volume increases accordingly. The Group's total farmland areas (excluding the citrus farm owned by an associated company) amounted to 155,315 mu as at 30 June 2003, representing an increase of 28.7% from 120,725 mu as at the end of last year.

Sales of crops for the year accounted for 91.5% of total turnover, while sales of livestock, supermarkets, ancillary food products and export trading account for 1.6%, 5.4% and 1.5% respectively. Apart from the supermarket business, there has not been any material change to the sales mix by product.

Domestic sales of crops represented 68% of the total turnover for the year while export sales of crops (by means of direct sales to overseas customers and sales locally by delivery to PRC trading companies) took up the remaining 32%. There has not been any material change to the sales mix by market.





The Group's principal business, sales of crops attained over 70% in gross profit margin. Overall gross profit margin dropped from 73.9% last year to 66.9% this year. This is attributable to the change in sales mix arising from the newly established businesses (supermarket and trading which normally has a much lower margin than that of the sales of crops).

The percentage of selling and distribution expenses, as well as general and administrative expenses for the year amounted to 9.4% and 6.3% of turnover respectively, as compared to percentage levels of 9.0% and 4.9% respectively last year. The percentage change in the selling and distribution expenses is not material. While there was an increase in the general and administrative expenses which is attributable to the corresponding increases in the depreciation and amortization charge of assets incurred by the significant capital investment made by Chaoda over the years.

The pre-tax profit margin for the year was 48.9%, which decreased from 58.8% in the previous year by 9.9%. The net profit margin was 48.8% as compared to last year's figure of 54.0%. The decline in net profit margin is a result of the change in sales mix arising from the newly established businesses (supermarket and trading which normally has a much lower margin than that of the sales of crops), and the corresponding increases in the depreciation and amortization charge of assets incurred by the significant capital investment made by Chaoda over the years respectively.

CHARGE ON ASSETS

As at 30 June 2003, the Group's interests in certain subsidiaries, amount of HK\$250,000,000 and US\$45,000,000 due from subsidiaries, and a deposit of HK\$20,000,000 are pledged as security for banking facilities.

STAFF AND REMUNERATION POLICIES

As at 30 June 2003, the Group employed 10,897 staff members, of which 8,319 are 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 "Scheme") was adopted pursuant to a resolution passed at the extraordinary general meeting of the Company held on 19 June 2002. During the year ended 30 June 2003, options in respect of 145,200,000 shares were granted to the relevant participants under the Scheme.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

In January 2002, the Company entered into an agreement (the "Loan Agreement") relating to a loan facility of up to US\$50,000,000 (the "Loan") with, inter alios, a syndicate of banks. The interest rate is at the London Inter-Bank Offered Rate in relation to the relevant interest period plus 1.875% per annum. Up to 30 June 2003, the loan of US\$50,000,000 (equivalent to RMB412,932,000) was drawn down by the Company. It also obtained short-term bank loans amounting to RMB50,000,000 at fixed interest rates of 4.536% to 5.31%. Subsequently, the bank loan of US\$50,000,000 was early fully repaid in September 2003.

As at 30 June 2003, the Group had bank and cash balances together with long-term bank deposits amounting to RMB867,286,000, of which RMB212,025,000 were denominated in Renminbi, the remaining RMB655,261,000 were denominated in foreign currencies, predominately Hong Kong dollars and United States dollars. 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 30 June 2003, the Group's gearing ratio was 13.2%. This is based on the division of loans by total assets. Additionally, the Group's current ratio was 1.8 times, reflecting the presence of sufficient financial resources.

As at 30 June 2003, the Group had outstanding capital commitments amounting to RMB455,814,000, of which, commitments of RMB97,138,000 are contracted but not provided for, the remaining commitments of RMB358,676,000 have been authorised but not contracted for, in respect of the purchase of fixed assets and research and development expenditure. As at 30 June 2003, the Group did not have any material contingent liabilities.





USE OF SHARE ISSUE PROCEEDS

As at 1 July 2002, the balance of unused share issue proceeds amounts to approximately RMB640,841,000. For the year ended 30 June 2003, the Group had applied approximately RMB165,421,000 for the construction of irrigation systems and infrastructure facilities in Nanjing and Beijing production bases; and approximately RMB3,028,000 for the expansion of retail network in Shanghai.

As at 30 June 2003, the net proceeds of RMB472,392,000 which have not yet been utilised in the previous years will continue to be used for the construction of farmlands, irrigation systems and infrastructure facilities and expansion of retail network, without limitation to Nanjing and Beijing production bases; or for the expansion of retail network in Shanghai. The above-mentioned unused proceeds are kept in banks as short-term deposits.





Mr. Kwok Ho
Chairman



Mr. Ip Chi Ming
Executive Director



Madam Chiu Na Lai
Executive Director



Dr. Lee Yan
Executive Director



Mr. Chan Hong
Executive Director



Ms. Wong Hip Ying
Executive Director



Mr. Fong Jao
Executive Director

EXECUTIVE DIRECTORS

Mr. KWOK Ho, aged 48, Honorary Doctor of Business Administration, is the Chairman of the Board, the Managing Director and the founder of the Group. Mr. Kwok is primarily responsible for the formulation and deployment of the overall strategy of the Group. He has over 21 years of experience in commercial trading in the PRC, particularly in the areas of strategic planning, management, business development, product strategy, sales and marketing. Mr. Kwok is appointed as a member of the 9th Fujian Provincial Political Consultative Committee for the current year. He is also elected as the first President of the Fujian Agricultural Industrialisation Association in 2003.

Mr. IP Chi Ming, aged 42, is an Executive Director of the Group and the General Manager of Chaoda Vegetable & Fruits Limited. Mr. Ip is primarily responsible for the management and promotion matters of the Group as well as the establishment of close relationship with media and investors. He joined the Group in January 1997 and has over 16 years of experience in trading and marketing in the food products industry.

Madam CHIU Na Lai, aged 47, is an Executive Director and one of the Co-founders of the Group. Madam Chiu is primarily responsible for the Group's overall financial planning, business development and management, and promotion matters of the overseas markets. She has over 21 years of experience in the fields of trading and financial planning as well as corporate management.

Dr. LEE Yan, aged 38, is an Executive Director of the Group. Dr. Lee is primarily responsible for the Group's research and development activities, the establishment and management of production bases. He received his doctorate degree in Plant Nutrition and Horticulture at Fujian Agricultural University and was appointed professor of the Faculty of Horticulture at the university. Dr. Lee has extensive experience in agricultural farming, particularly in the areas of planting and cultivation methods, as well as pest and disease management. He joined the Group in January 1997.





Mr. CHAN Hong, aged 34, is an Executive Director of the Group. Mr. Chan is primarily responsible for the Group's general administrative and personnel matters. He graduated from Fujian Minjiang University in 1990 with a diploma in industrial management. He joined the Group in January 1997 and has over 8 years of experience in corporate administration and human resources management. Mr. Chan was appointed an Executive Director of the Group on 1 September 2003.

Ms. WONG Hip Ying, aged 55, is an Executive Director of the Group. Ms. Wong is primarily responsible for the Group's finance management function. She graduated from Xiamen Economic College. Ms. Wong joined the Group in January 1997 and has over 11 years of extensive experience in the accounting field in the PRC. Ms. Wong was appointed an Executive Director of the Group on 1 September 2003.

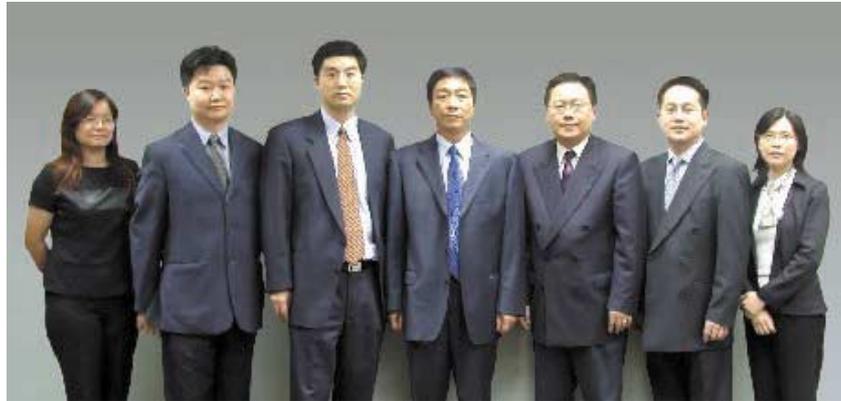
Mr. FONG Jao, aged 32, is an Executive Director of the Group. Mr. Fong is primarily responsible for international and domestic trading development, strategic planning, sales and information management of the Group. He graduated from the Faculty of Horticulture (specialised in vegetables) in Nanjing Agricultural University in July 1992 with a bachelor degree in agriculture. Mr. Fong joined the Group in 1996 and has 10 years' extensive experience in agricultural industry. Mr. Fong was appointed an Executive Director of the Group on 1 September 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. FUNG Chi Kin, aged 54, is an Independent Non-executive Director. Currently, Mr. Fung is the Chairman of The Chinese Gold & Silver Exchange Society, a Standing Committee Member of The Chinese General Chamber of Commerce and the International Advisor of Shanghai Gold Exchange. He has over 30 years of experience in banking and finance business. Prior to his retirement, Mr. Fung was the Deputy Managing Director of Bank of China (Hong Kong) Limited (previously known as Po Sang Bank Ltd.), Managing Director of BOC International (China) Limited and Chief Executive Officer of BOC International Holdings Limited. From October 1998 to June 2000, Mr. Fung served as the Member of the First LegCo. He also held important office in various government authorities, namely the Vice Chairman of The Stock Exchange of Hong Kong Limited, Director of the Hong Kong Futures Exchange, Director of Hong Kong Securities Clearing Company Limited and Hong Kong Affairs Advisor. Mr. Fung was appointed Independent Non-executive Director on 1 September 2003.

Mr. TAM Ching Ho, aged 32, is an Independent Non-executive Director. Mr. Tam is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. He is also a certified public accountant. Mr. Tam has over 10 years' experience in finance, accounting and auditing. He was appointed an Independent Non-executive Director on 1 September 2003.





Professor LIN Shun Quan, aged 45, is an Independent Non-executive Director. Professor Lin received his doctorate degree in Agriculture from Fujian Agricultural University and had been on a two-year sabbatical with Saga University, Japan from 1996 to 1998. He was appointed as professor at Huanan Agricultural University and has extensive experience in the agricultural industry in the PRC.

SENIOR EXECUTIVES

Mr. MA Shing Yung, aged 38, is a Vice President of the Group. Mr. Ma is primarily responsible for the strategic planning of the production bases and business development of the Group as well as promotion, sales and logistics centre management. He graduated from Fujian Teacher's University. With over 11 years of experience in corporate management and project investment, Mr. Ma joined the Group in January 1999.

Mr. WANG Xiao Gang, Gordon, aged 39, is the Executive Vice President and Chief Financial Officer of the Group. Mr. Wang is primarily responsible for the financial management and capital market planning and operation of the Company, including investors relations. He joined the Group in June 2003. He graduated from The University of Chicago in the USA with a master degree in business administration (major in finance). Mr. Wang has over 10 years of experience in international capital market and corporate management. He has worked with Morgan Stanley, Schroders Group, MeetChina.com and Legend Group etc.

Mr. CHAN Chi Po, Andy, aged 36, is the Financial Controller of the Group. Mr. Chan is responsible for financial management, financial information analysis and accounting of the Group. He graduated from The University of Sheffield in the UK with honours degree in accounting, financial management and economics. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Prior to joining the Group in February 2003, Mr. Chan served as senior corporate auditor responsible for the Asia Pacific Region of a blue chip company listed on the New York Stock Exchange. He has also held office in The Stock Exchange of Hong Kong Limited and an international accounting firm for 8 years.

Ms. CHING Che Man, Susanna, aged 35, is the Director of Corporate Communication Department of the Group. Ms. Ching is primarily responsible for the management and supervision of financial matters and corporate planning within the Group to ensure compliance of relevant laws and regulations. She is also responsible for investors' relations and media management. She holds a bachelor degree in accountancy and a master degree in business administration. She is also an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. Ching has previously held office in an international accounting firm and the Listing Division of The Stock Exchange of Hong Kong Limited for over 11 years. She joined the Group in June 2003.





Professor YEUNG Ting Wai, aged 67, is the Livestock Analyst of the Group. Professor Yeung is primarily responsible for the overall management, development, research and development of the livestock farming business. He graduated from Fujian Agricultural University and has over 41 years of experience in research and development of livestock farming. Prior to joining the Group in January 1997, Professor Yeung was the Dean of the Animal and Veterinary Faculty of Fujian Agricultural University and the Director of the Animal and Veterinary Institute of the PRC. He developed the embryo transfer technology for cows and sheep and received the Awards for Scientific Technology Advancement of Fujian Province.

Mr. SZE Non Po, aged 65, is the Senior Analyst for agricultural farming techniques of the Group. Mr. Sze is primarily responsible for the planning, infrastructure development and management of the Group's production bases. He graduated from Fujian Agricultural University and has over 41 years of experience in agricultural farming. Mr. Sze's research on agricultural farming had received a number of awards at both national and provincial levels. He received the Outstanding Specialist Award in 1997 and also the Star of Invention and Creation Award from the China Division of TIPS of the United Nations in 1995. Mr. Sze joined the Group in January 1999.

Ms. LEE Yuet Wor, aged 38, is the Company Secretary and Chief Accountant of the Group. Ms. Lee is primarily responsible for the Group's financial management, financial reporting and regulatory compliance. She is an associate member of The Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants. She has over 10 years of experience in accounting, auditing and financial management. Ms. Lee joined the Group in 2002.

Mr. WONG Young Bin, aged 33, is the Manager of the production base management department of the Group. Mr. Wong is primarily responsible for the establishment, growing plan and cultivation management in the production base of the Group. He graduated from Faculty of Horticulture (specialised in vegetables) in Nanjing Agricultural University in July 1992 with a bachelor degree in agriculture. Mr. Wong joined the Group in 2001. He has over 9 years' extensive experience in agricultural industry and possesses professional technology knowledge in the agricultural industry.

Mr. HE Can De, aged 40, is primarily responsible for construction, planning and management of the Group's production base. Mr. He graduated from Fujian Zhang Zhou Health and Hygiene School. He joined the Group in 2000 and is now the Deputy Manager of the production base management department of the Group. He has extensive experience in the management of production base, infrastructure and planning, product development and sales and has achieved outstanding performance.

Mr. YANG Jin Fa, aged 27, is primarily responsible for the promotion of corporate planning and media marketing of the Group. Mr. Yang graduated from Fujian Agricultural University (specialized in economics and management). He joined the Group in 1999 and is currently General Affairs Vice President of the Group's strategic planning department. He has extensive experience in public relations, media management and marketing, and policy planning.

Mr. WANG Jin, aged 27, is primarily responsible for e-commerce, network security and information management of the Group. Mr. Wang graduated from Anhui Agricultural University with a bachelor degree in agriculture. He joined the Group in 1999 and is now the Deputy Manager of the Group's Information Centre and Transaction Centre. He has extensive experience in agricultural micro-organisms, network platform infrastructure, information management and logistics.

Mr. WONG Po Shing, aged 38, is the Financial Manager of the Group. Mr. Wong is primarily responsible for the financial management and accounting of the Group. He graduated from the University of Sheffield in the UK with a honour degree in accounting, financial management and mathematics. Mr. Wong joined the Group in 2002 and has over 10 years of experience in accounting, auditing and financial management.

Mr. LIU Ren, aged 35, is primarily responsible for the development and marketing of the Group's domestic and export trading business. Mr. Liu graduated from Tokyo University with a bachelor degree. He joined the Group in 2000 and has held office in the Hong Kong Division of the Transaction Centre and served as Head of the Information Division of Transaction Centre. He has extensive experience in domestic and export trading businesses, product sales and information management.



DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 30 June 2003.

PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 36 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results for the year ended 30 June 2003 are set out in the consolidated income statement on page 29.

DIVIDENDS AND OTHER DISTRIBUTION

The Board of Directors has recommended the payment of a final dividend of RMB0.037 per share (approximately equivalent to HK\$0.0349 per share) for the year ended 30 June 2003, together with a Bonus Issue of shares of HK\$0.1 each, on the basis of one share for every twenty shares held by the shareholders registered as such on the register of members of the Company on 19 December 2003 (including those with registered addresses outside Hong Kong) (2002: RMB0.095 per share (approximately equivalent to HK\$0.090 per share)), subject to shareholders' approval at the forthcoming annual general meeting to be held on 19 December 2003, to the shareholders whose names appear on the Register of Members of the Company on 19 December 2003 and payable and distributable on or before 30 January 2004. No interim dividend was declared for the six months ended 31 December 2002 (2001: Nil).

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 31 to the financial statements.

FIXED ASSETS

Details of the movements in the fixed assets of the Group are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 29 to the financial statements.



DISTRIBUTABLE RESERVES

Reserves of the Company at 30 June 2003 available for distribution amounted to RMB1,287,823,000 (2002: RMB1,320,200,000).

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 30 June 2003, the Company purchased and cancelled 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. 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 year ended 30 June 2003.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the current year and the last four financial years are set out on page 75.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Mr. Kwok Ho	
Mr. Ip Chi Ming	
Madam Chiu Na Lai	
Mr. Lee Yan	
Mr. Chan Hong	(Appointed on 1 September 2003)
Ms. Wong Hip Ying	(Appointed on 1 September 2003)
Mr. Fong Jao	(Appointed on 1 September 2003)
Mr. Fung Chi Kin*	(Appointed on 1 September 2003)
Mr. Tam Ching Ho*	(Appointed on 1 September 2003)
Mr. Wong Kong Chi*	(Resigned on 1 September 2003)
Professor Lin Shun Quan*	

* *Independent Non-executive Director*



DIRECTORS' REPORT

DIRECTORS (Continued)

In accordance with Article 99 of the Company's Articles of Association, Mr. Chan Hong, Ms. Wong Hip Ying, Mr. Fong Jao, Mr. Fung Chi Kin and Mr. Tam Ching Ho will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 116 of the Company's Articles of Association, Professor Lin Shun Quan will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

DIRECTORS' SERVICE AGREEMENTS

Each of the Executive Directors of the Company has entered into a service agreement with the Company. The terms of appointment are as follows:

Mr. Kwok Ho	9 years
Mr. Ip Chi Ming	5 years
Madam Chiu Na Lai	3 years
Mr. Lee Yan	3 years
Mr. Chan Hong	3 years
Ms. Wong Hip Ying	3 years
Mr. Fong Jao	3 years

The service agreements of Mr. Kwok Ho, Mr. Ip Chi Ming, Madam Chiu Na Lai and Mr. Lee Yan and the service agreements of Mr. Chan Hong, Ms. Wong Hip Ying and Mr. Fong Jao are commenced on 1 December 2000 and 1 September 2003 respectively and shall continue thereafter unless and until terminated by either party giving to the other not less than three months' notice in writing.

Professor Lin Shun Quan, being the Independent Non-executive Director of the Company, has entered into a letter of appointment with the Company for continuously appointed for a two-year term expiring on 30 November 2004 unless it is terminated by either party giving the other not less than three months' notice in writing.

Mr. Fung Chi Kin and Mr. Tam Ching Ho were appointed as the Independent Non-executive Directors of the Company for a one-year term commencing on 1 September 2003 unless it is terminated by either party giving the other not less than three months' notice in writing.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service agreement which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.



PROFILES OF DIRECTORS AND SENIOR EXECUTIVES

Profiles of Directors and senior executives of the Group are set out on pages 12 to 15.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2003, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO were as follows:

Long positions in shares of the Company

Name of director	Number of ordinary shares			Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. Kwok Ho	—	—	986,000,000 <i>(Note 1)</i>	986,000,000	51.49%
Madam Chiu Na Lai	—	986,000,000 <i>(Note 1)</i>	—	986,000,000	51.49%
Mr. Ip Chi Ming	—	—	52,000,000 <i>(Note 2)</i>	52,000,000	2.72%

Notes:

1. Held through Kailey Investment Ltd. in which Mr. Kwok Ho has 800 shares and the spouse, Madam Chiu Na Lai, has 100 shares representing 80% and 10% respectively of the total issued share capital of Kailey Investment Ltd.
2. Held through Young West Investments Ltd. which is wholly-owned by Mr. Ip Chi Ming.



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (Continued)

Long positions in underlying shares of the Company

Name of directors	Date of grant	Share Options in the Company		Number of shares in respect of options outstanding as at 30 June 2003
		Exercise price (HK\$)	Exercisable period	
Mr. Kwok Ho (Note)	28/01/2003	1.66	01/07/2003 — 27/01/2013	25,000,000
			01/01/2004 — 27/01/2013	20,000,000
			01/01/2005 — 27/01/2013	20,000,000
Mr. Ip Chi Ming	28/01/2003	1.66	01/07/2003 — 27/01/2013	5,000,000
	24/06/2003	1.14	01/07/2003 — 23/06/2013	2,500,000
Madam Chiu Na Lai (Note)	28/01/2003	1.66	01/07/2003 — 27/01/2013	25,000,000
			01/01/2004 — 27/01/2013	20,000,000
			01/01/2005 — 27/01/2013	20,000,000
Mr. Lee Yan	28/01/2003	1.66	01/07/2003 — 27/01/2013	2,000,000
	24/06/2003	1.14	01/07/2003 — 23/06/2013	1,500,000

Note: Options in respect of 60,000,000 shares were held by Mr. Kwok Ho and options in respect of 5,000,000 shares were held by the spouse, Madam Chiu Na Lai.

Long positions in shares of an associated corporation — Kailey Investment Ltd.

Name of director	Number of ordinary shares			Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. Kwok Ho	800 (Note)	100 (Note)	—	900	90%
Madam Chiu Na Lai	100 (Note)	800 (Note)	—	900	90%

Note: Mr. Kwok Ho has 800 shares and the spouse, Madam Chiu Na Lai, has 100 shares representing 80% and 10% respectively of the total issued share capital of Kailey Investment Ltd.



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES (Continued)

Save as disclosed above, none of the directors, chief executives or their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2003, so far as is known to the Directors, the following corporation (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Kailey Investment Ltd.	Beneficial owner	986,000,000	51.49%

Note: Kailey Investment Ltd. is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 80% by Mr. Kwok Ho and 10% by Madam Chiu Na Lai. Mr. Kwok Ho is entitled to exercise 80% of the voting powers at general meetings of Kailey Investment Ltd.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the headings "Share Option Scheme" below and "Directors' and Chief Executives' Interests in Securities" above, at no time during the year was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or Chief Executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Apart from the information disclosed under the heading "Connected Transactions" below, there was no other contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted at the end of the year or at any time during the year, and in which a Director had, whether directly or indirectly, a material interest, nor there was any other contract of significance in relation to the Company's business between the Company or any of the Company's subsidiaries and a controlling shareholder or any of its subsidiaries.



DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 30 June 2003, none of the Directors of the Company is interested in any business which competes or is likely to compete, either directly or indirectly, with the Company's business.

CONNECTED TRANSACTIONS

Significant related party transactions which also constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), entered into by the Group during the year are disclosed in note 35 to the financial statements. The independent non-executive Directors of the Company had reviewed the connected transactions set out in note 35 for which the Stock Exchange has granted a waiver from the relevant requirements of the Listing Rules and confirmed that:

- (a) the transactions have been entered into by the Group in the ordinary and usual course of business;
- (b) the transactions have been entered into on normal commercial terms or on the terms no less favourable than terms available to or from independent third parties;
- (c) the transactions have been entered into on terms fair and reasonable so far as shareholders of the Company are concerned; and
- (d) the purchase of organic fertilizers, plant growth regulators by the Group from Fujian Chaoda Agriculture Produce Trading Company Limited, which constitute connected transactions and in respect of the waiver granted by the Stock Exchange, the aggregate value of the purchases of organic fertilizers, plant growth regulators from the connected parties do not exceed 55% and 3% of the total purchase and 12% and 0.5% of the total turnover of the Group, being limits subject to which the Stock Exchange has granted the waiver from strict compliance with the provisions governing connected transactions under the Listing Rules.

Note: Mr. Kwok Ho and Madam Chiu Na Lai hold 95% and 5% respectively of the equity interest in Fujian Chaoda Group Limited, a limited company incorporated in the People's Republic of China ("PRC"), which hold, a 60% equity interest in Fujian Chaoda Agriculture Produce Trading Company Limited.



SHARE OPTION SCHEME

A share option scheme (the "Scheme") was adopted pursuant to a resolution passed at the extraordinary general meeting of the Company held on 19 June 2002 for the primary purpose of providing incentives or rewards to selected participants, and will expire on 18 June 2012. Under the Scheme, the Company may grant options to any participant includes any Director (whether executive or non-executive, including any independent non-executive director) or employee (whether full time or part time) of, or any individual for the time being seconded to work for, any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder (a "**Category A Participant**"); or any holder of any securities issued by any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder (a "**Category B Participant**"); or (i) any business or joint venture partner, contractor or agent of; (ii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional services to; (iii) any supplier, producer or licensor of any goods or services to; (iv) any customer, licensee or distributor of any goods or services of; (v) any landlord or tenant of; any member of the Group or any controlling shareholder or any company controlled by a controlling shareholder (a "**Category C Participant**") and, for the purposes of the Scheme, shall include any company controlled by one or more persons belonging to any of the above classes of participants to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme must not exceed 10% of the shares of the Company in issue as at the adoption date. The total number of shares issued and to be issued upon exercise of the options granted to a Participant in any 12-month period must not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of the individual limit must be subject to shareholders' approval.

Options granted must be taken up within 30 days from the offer date, upon payment of HK\$1.00 per offer. Save as determined by the Directors and provided in the offer of the grant of the relevant option, there is no performance target requirement which must be achieved before any of the options can be exercised and there is no general requirement that an option must be held for any minimum period before it can be exercised. The option price is determined by the Board of Directors in its absolute discretion which, in any event, shall be at least the higher of (a) the closing price of the shares on the offer date; (b) the average closing price of the shares for the five business days immediately preceding the offer date; and (c) the nominal amount for the time being of each share.



SHARE OPTION SCHEME (Continued)

As at 30 June 2003, particulars of the options granted to the participants under the Scheme of the Company during the year were as follows:

Name or Category of participant	Number of Shares in respect of Options			Date of grant	Exercisable period	Exercise price per share HK\$	
	Balance as at 1 July 2002	Granted during the year	Outstanding as at 30 June 2003 <i>(Note 1)</i>				
Directors:							
Kwok Ho	—	20,000,000	20,000,000	28/01/2003	01/07/2003 — 27/01/2013	1.66	
			20,000,000		01/01/2004 — 27/01/2013		
			20,000,000		01/01/2005 — 27/01/2013		
Ip Chi Ming	—	5,000,000	5,000,000	28/01/2003	01/07/2003 — 27/01/2013	1.66	
			2,500,000	2,500,000	24/06/2003	01/07/2003 — 23/06/2013	1.14
Chiu Na Lai	—	5,000,000	5,000,000	28/01/2003	01/07/2003 — 27/01/2013	1.66	
Lee Yan	—	2,000,000	2,000,000	28/01/2003	01/07/2003 — 27/01/2013	1.66	
			1,500,000	1,500,000	24/06/2003	01/07/2003 — 23/06/2013	1.14
Employees:							
In aggregate	—	13,500,000	13,500,000	28/01/2003	01/07/2003 — 27/01/2013	1.66	
			44,700,000	44,700,000	19/06/2003	01/07/2003 — 18/06/2013	1.13
			6,000,000	6,000,000		01/07/2004 — 18/06/2013	
Other Participants:							
In aggregate	—	4,000,000	4,000,000	19/06/2003	01/07/2003 — 18/06/2013	1.13	
			1,000,000	1,000,000		01/07/2004 — 18/06/2013	
Total	—	145,200,000	145,200,000				

Notes:

- No Option has been exercised, lapsed or cancelled during the year ended 30 June 2003.
- Since no Option has been exercised during the year ended 30 June 2003, the weighted average closing price immediately before the exercise date (if exercised) is not applicable.
- The closing price immediately before the date of options granted on 28 January 2003, 19 June 2003 and 24 June 2003 were HK\$1.58, HK\$0.91 and HK\$1.19 respectively.



RETIREMENT SCHEME ARRANGEMENT

Particulars of the Group's retirement scheme are set out in note 13 to the financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchase and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchase	
— the largest supplier	33 %
— five largest suppliers combined	46 %
Sales	
— the largest customer	5 %
— five largest customers combined	24 %

Mr. Kwok Ho and Madam Chiu Na Lai hold 95% and 5% respectively of the equity interest in Fujian Chaoda Group Limited, a limited company incorporated in the "PRC", which hold a 60% equity interest in the Group's largest supplier.

None of the Directors of the Company or their respective associates or any shareholder, who to the knowledge of the Directors, own more than 5% of the Company's share capital had an interest in any of the major customers noted above.

DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

During the year ended 30 June 2003, circumstance which will trigger events of default of the Company under the banking facility document as far as the obligation of the controlling shareholder is concerned is as follows:

On 16 January 2002, the Company had entered into a loan agreement (the "Loan Agreement") with, inter alia, a syndicate of banks relating to a loan facility of up to US\$50,000,000 (the "Loan"). Under the Loan Agreement, it would be an event of default if Kailey Investment Ltd., the controlling shareholder of the Company as defined in the Listing Rules, ceases to be the single largest controlling shareholder of the Company. If such an event of default occurs, all amounts outstanding in respect of the Loan would become immediately due and payable by the Company.

On 25 September 2003, the loan was fully repaid by the Company.



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 (Chairman).

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 audited financial statements of the Group during the year.

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 2002/2003, the external auditors, the chief financial officer, the financial controller and an executive director in charge of finance matters of the Group attended the meetings to answer questions on the reports or their work.

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 year ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

SUBSEQUENT EVENTS

There is no significant event subsequent to the balance sheet date as at 30 June 2003.



AUDITORS

PricewaterhouseCoopers, being one of the joint auditors of the Company, resigned on 3 June 2003. Charles Chan, Ip & Fung CPA Ltd., being the remaining joint auditors of the Company, remained in office.

The financial statements for the year were audited by Charles Chan, Ip & Fung CPA Ltd., the auditors of the Company, who will retire, and being eligible, will offer themselves for re-appointment.

On behalf of the Board

Kwok Ho

Chairman

Hong Kong, 21 October 2003





CCIF

Charles Chan, Ip & Fung CPA Ltd.
37th Floor Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

To the Shareholders of
Chaoda Modern Agriculture (Holdings) Limited
(Incorporated Under the Laws of The Cayman Islands with Limited Liability)

We have audited the financial statements on pages 29 to 74 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of the financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statement of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants

Chan Wai Dune, Charles
Practising Certificate Number P00712

Hong Kong, 21 October 2003



CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2003

	Note	2003 RMB'000	2002 RMB'000 (Restated)
Turnover	4	1,485,307	1,152,133
Cost of sales		(491,517)	(300,176)
Gross profit		993,790	851,957
Other revenue	5	30,088	28,434
Selling and distribution expenses		(139,767)	(104,134)
General and administrative expenses		(94,003)	(56,334)
Research expenses		(53,170)	(46,000)
Other operating expenses	7	(33,369)	(9,142)
Profit from operations		703,569	664,781
Finance costs	8(a)	(15,345)	(6,028)
Share of profits less losses of associates		37,803	19,080
Profit from ordinary activities before taxation	8	726,027	677,833
Taxation	9	(2,838)	(55,959)
Profit from ordinary activities after taxation		723,189	621,874
Minority interests		1,945	50
Profit attributable to shareholders	10	725,134	621,924
Earnings per share — Basic	11	RMB38 cents	RMB35 cents
Dividends	12	70,857	182,490

The notes on pages 35 to 74 form an integral part of these financial statements.



CONSOLIDATED BALANCE SHEET

30 JUNE 2003

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	Note	2003 RMB'000	2002 RMB'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	16	1,012,268	463,857
Construction-in-progress	17	371,854	269,370
Computer software development cost	18	39,182	56,000
Deferred development costs	19	72,762	69,482
Long-term prepaid rentals	20	597,897	443,521
Long-term bank deposits	26	103,233	105,880
Deferred expenditure	21	29,882	—
Other long-term deposits		2,150	2,150
Interests in associates	23	183,267	140,246
CURRENT ASSETS			
Inventories	24	80,497	60,376
Trade receivables	25	69,407	61,238
Other receivables, deposits and prepayments		193,559	114,460
Cash and bank balances	26	764,053	891,043
		1,107,516	1,127,117
CURRENT LIABILITIES			
Amount due to a related company	27	6,167	4,308
Trade payables	28	16,172	1,517
Other payables and accrued charges		41,546	48,083
Bank loans — secured	32	462,932	—
Taxation		93,096	93,096
		619,913	147,004
NET CURRENT ASSETS			
		487,603	980,113
NET ASSETS			
		2,900,098	2,530,619
CAPITAL AND RESERVES			
Share capital	29	203,266	203,789
Reserves	31(a)	2,693,223	2,156,357
		2,896,489	2,360,146
MINORITY INTERESTS			
		3,609	5,300
LONG-TERM BANK LOANS — SECURED			
	32	—	165,173
		2,900,098	2,530,619

Approved and authorised for issue by the board of directors on 21 October 2003.

On behalf of the board

Kwok Ho

Director

Ip Chi Ming

Director

The notes on pages 35 to 74 form an integral part of these financial statements.



BALANCE SHEET

30 JUNE 2003

	Note	2003 RMB'000	2002 RMB'000
NON-CURRENT ASSETS			
Interests in subsidiaries	22	1,679,552	1,228,351
CURRENT ASSETS			
Other receivables, deposits and prepayments		6,894	9,434
Cash and bank balances	26	219,311	451,902
		226,205	461,336
CURRENT LIABILITIES			
Other payables and accrued charges		1,736	525
Bank loans — secured	32	412,932	—
		414,668	525
NET CURRENT (LIABILITIES)/ASSETS		(188,463)	460,811
NET ASSETS		1,491,089	1,689,162
CAPITAL AND RESERVES			
Share capital	29	203,266	203,789
Reserves	31(b)	1,287,823	1,320,200
		1,491,089	1,523,989
LONG-TERM BANK LOANS — SECURED	32	—	165,173
		1,491,089	1,689,162

Approved and authorised for issue by the board of directors on 21 October 2003.

On behalf of the board

Kwok Ho
Director

Ip Chi Ming
Director

The notes on pages 35 to 74 form an integral part of these financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2003

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	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Capital redemption reserve RMB'000	Statutory common reserve RMB'000	Statutory welfare reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 July 2001 as previously reported	169,824	411,664	94,894	—	26,881	731	303,733	1,007,727
Adoption of SSAP 9 (revised)	—	—	—	—	—	—	123,808	123,808
At 1 July 2001 as restated	169,824	411,664	94,894	—	26,881	731	427,541	1,131,535
Issue of shares	33,965	747,226	—	—	—	—	—	781,191
Issuing expenses	—	(25,850)	—	—	—	—	—	(25,850)
Profit for the year	—	—	—	—	—	—	621,924	621,924
2000/2001 final dividends paid	—	—	—	—	—	—	(148,654)	(148,654)
Appropriation	—	—	—	—	53,743	—	(53,743)	—
At 30 June 2002 and 1 July 2002	203,789	1,133,040	94,894	—	80,624	731	847,068	2,360,146
Repurchase of shares	(523)	—	—	—	—	—	—	(523)
Premium on share repurchased	—	(5,778)	—	—	—	—	—	(5,778)
Transfer to capital redemption reserve	—	—	—	523	—	—	(523)	—
Profit for the year	—	—	—	—	—	—	725,134	725,134
2001/2002 final dividends paid	—	—	—	—	—	—	(182,490)	(182,490)
Appropriation	—	—	—	—	3,487	—	(3,487)	—
At 30 June 2003	203,266	1,127,262	94,894	523	84,111	731	1,385,702	2,896,489

The notes on pages 35 to 74 form an integral part of these financial statements.



CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2003

	Note	2003 RMB'000	2002 RMB'000 (Restated)
OPERATING ACTIVITIES			
Profit from operations		703,569	664,781
Interest income		(16,930)	(19,202)
Depreciation charges		52,971	17,589
Loss on disposal of fixed assets		5,366	—
Amortisation of computer software development cost		19,591	—
Amortisation of deferred development costs		3,150	2,461
Amortisation of long-term prepaid rentals		9,078	6,303
Amortisation of deferred expenditure		1,652	—
Amortisation of negative goodwill		(8,136)	(8,136)
Operating profit before changes in working capital		770,311	663,796
Increase in inventories, trade receivables, other receivables, deposits and prepayments		(95,540)	(118,417)
Increase in trade payables, other payables and accrued charges		8,118	28,574
Increase in amount due to a related company		1,859	1,956
Increase in amount due to an associate		80	—
Cash generated from operations		684,828	575,909
Interest received		16,930	19,202
Finance costs paid		(15,345)	(6,028)
Dividends paid		(182,490)	(148,654)
NET CASH INFLOW FROM OPERATING ACTIVITIES		503,923	440,429
INVESTING ACTIVITIES			
Net cash outflow from acquisition of a subsidiary	33	—	(80,833)
Acquisition of an associate		—	(107,156)
Advance to an associate		—	(7,350)
Purchase of fixed assets		(266,200)	(75,175)
Proceeds from sales of fixed assets		10,754	2,844
Payment of construction-in-progress		(462,439)	(393,001)
Payment of computer software development cost		(2,773)	(1,000)
Payment of deferred development costs		(6,430)	(22,500)
Payment of long-term prepaid rentals		(187,916)	(215,276)
Refund of long-term prepaid rentals		21,266	2,908
Payment of deferred expenditure		(31,534)	—
Decrease/(increase) in long-term bank deposits		2,647	(105,880)
NET CASH USED IN INVESTING ACTIVITIES		(922,625)	(1,002,419)



CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2003

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	Note	2003 RMB'000	2002 RMB'000 (Restated)
FINANCING ACTIVITIES			
Proceeds from issue of new shares		—	781,191
Issuing expenses		—	(25,850)
Repurchase of shares		(6,301)	—
Contributions from minority interests		254	5,350
New bank loans		297,759	165,173
Repayment of bank loans		—	(50,000)
Bank deposits pledged for banking facilities	26	(21,176)	—
Return of bank deposits pledged for banking facilities		—	53,070
NET CASH INFLOW FROM FINANCING ACTIVITIES		270,536	928,934
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(148,166)	366,944
CASH AND CASH EQUIVALENTS AT 1 JULY		891,043	524,099
CASH AND CASH EQUIVALENTS AT 30 JUNE	26	742,877	891,043

The notes on pages 35 to 74 form an integral part of these financial statements.



1. BASIS OF PREPARATION

The principal activity of the Company is investment holding.

The principal activities and other particulars of the subsidiaries are set out in note 36 to the financial statements.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

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

The Group has adopted the following new or revised SSAPs issued by the HKSA which became effective during the current financial year:

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 11 (Revised)	:	Foreign currency translation
SSAP 15 (Revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34 (Revised)	:	Employee benefits

The adoption of these SSAPs has resulted in a change in the format of the presentation of the consolidated cash flow statement and the consolidated statement of changes in equity, but has not had any significant impact on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Unless otherwise stated, the 2002 comparative figures presented herein have incorporated the effect of the adjustments, where applicable, resulting from the adoption of the new accounting standards above.



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3. SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 30 June 2003. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate.

All material intercompany transactions and balances are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any goodwill or capital reserves which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the interests in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Subsidiaries

A subsidiary, is an enterprise in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

(c) Associates

An associate is a company in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The interest in an associate is accounted for in the consolidated balance sheet under the equity method whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associate.

The results of the associate is accounted for in the consolidated income statement to the extent of the Group's share of associate's results of operations.



3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

- for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses; and
- for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses is included in the carrying amount of the interest in associates.

Negative goodwill arising on acquisitions of controlled subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

- for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and
- for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.



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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Goodwill *(Continued)*

In respect of any negative goodwill not yet recognised in the consolidated income statement:

- for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and
- for associates, such negative goodwill is included in the carrying amount of the interests in associates.

On disposal of a controlled subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

(e) Intangible Assets (Other than Goodwill)

(i) *Research and development costs*

Research costs are charged to the income statement in the year in which they are incurred.

Development costs are expensed as incurred, except where a specific project is undertaken, the technical feasibility of the product under development has been demonstrated, costs are identifiable and a market exists for the product such that the development costs are expected to be recoverable from related future economic benefits. Such development costs are recognised as deferred development costs in the balance sheet and amortised on a straight-line basis over a period of not more than 5 years from the date the product is available for sale. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(ii) *Computer software development cost*

Generally, costs associated with developing or maintaining computer software programmes are expensed as incurred. However, costs that are directly associated with identifiable and unique software products controlled by the Group and have probable economic benefit exceeding the cost beyond one year, are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.



3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Intangible Assets (Other than Goodwill) (Continued)

(ii) Computer software development cost (Continued)

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets is amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(f) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated on a straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	10% to 50%
Land and building	3 $\frac{1}{3}$ %
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Farmland infrastructure	5% to 20%
Computer equipment	20%
Orchard	5% to 10%
Intermediate life plants	20%

Intermediate life plants are perennial plants which have growth cycles more than one year.

Cultivation costs during the development period of the orchard and intermediate life plants are capitalised until the commencement of commercial production following which the accumulated costs are depreciated over their estimated useful lives.



3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Fixed Assets and Depreciation *(Continued)*

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(g) Impairment

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over more than 20 years from the date when the asset is available for use or goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).



3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment *(Continued)*

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(h) Construction-In-Progress

Construction-in-progress is stated at cost. Cost comprises all direct and indirect cost of construction. Construction-in-progress is transferred to fixed assets and depreciation commences when construction is completed and the asset is put into use.

(i) Long-Term Prepaid Rentals

Long-term prepaid rentals under operating leases are recognised at cost and amortised on a straight-line basis over the period of the respective leases.

(j) Deferred Expenditure

Deferred expenditure is recognised at cost and amortised on a straight-line basis over five years.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits which can be reasonably estimated will be required to settle such obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.



3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) Revenue Recognition

- (i) Revenue from the sales of crops, livestock, ancillary food products, export trading and supermarkets chain operation are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- (ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(n) Translation of Foreign Currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Foreign currency assets, being equity investments or other long-term non-monetary assets, the holding or use or the subsequent disposal of which will generate receipts in a foreign currency, hedged by foreign currency borrowings, are translated into Renminbi at the exchange rates ruling at the balance sheet date.



3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Translation of Foreign Currencies *(Continued)*

Exchange gains and losses are dealt with in the income statement, except those arising from the translation at closing rates of foreign currency assets hedged by foreign currency borrowings, and the gains and losses on those foreign currency borrowings (to the extent of exchange differences arising on the foreign currency assets), which are taken directly to reserves.

The results of foreign enterprises are translated into Renminbi at the average exchange rates for the year; balance sheet items are translated into Renminbi at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(o) Employee Benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.
- (iii) The Group has joined a retirement scheme organised by the Provincial Government of Fujian for its PRC eligible employees and is required to contribute 22.2% of the eligible employees' basic salaries to the scheme.
- (iv) The Group operates a share option scheme where directors, employees and specified participants are granted with options to acquire shares of the Company at specified exercise prices.

(p) Inventories

The Group's inventories, comprising growing crops, livestock, agricultural materials, merchandise purchased for resale and ancillary food products, are carried at the lower of cost and net realisable value.



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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Inventories *(Continued)*

Costs of growing crops, including seeds, fertilisers, pesticides, plant growth regulators, labour and indirect overheads, are accumulated until the time of harvest. Indirect overheads common to various products, including rentals of farmland, depreciation of farmland infrastructure, land preparation, irrigation and indirect labour, are allocated to products based on production areas.

Costs of livestock are calculated on a weighted average basis and comprises initial purchase cost and breeding cost.

Costs of agricultural materials, merchandise purchased for resale and ancillary food products are stated at their purchase costs calculated on a first-in, first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(q) Trade Receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(r) Cash And Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(s) Deferred Taxation

Deferred taxation is accounted for under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or asset is expected with reasonable probability to crystallise in the foreseeable future. Deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.



3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Operating Leases

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern by benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(u) Related Parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(v) Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.



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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Segment Reporting (Continued)

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

4. TURNOVER

The Group is principally engaged in the growing and sales of crops, breeding and sales of livestock, sales of ancillary food products, export trading and supermarkets chain operation.

Turnover represents the sales value of goods supplied to customers. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2003 RMB'000	2002 RMB'000
Sales of crops	1,358,393	1,128,253
Sales of livestock	24,557	21,356
Sales of ancillary food products	2,264	2,524
Export trading	20,123	—
Supermarkets chain operation	79,970	—
	1,485,307	1,152,133

5. OTHER REVENUE

	2003 RMB'000	2002 RMB'000 (Restated)
Amortisation of negative goodwill	8,136	8,136
Interest income	16,930	19,202
Sundry income from supermarkets	3,227	—
Others	1,795	1,096
	30,088	28,434



NOTES TO THE FINANCIAL STATEMENTS

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6. SEGMENT INFORMATION

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	Sales of ancillary food products RMB'000	Export trading RMB'000	Supermarkets chain operation RMB'000	Inter- segment elimination RMB'000	Total RMB'000
Sales to external customers	1,363,164	24,557	2,264	20,123	79,970	(4,771)	1,485,307
Cost of sales	(399,895)	(4,088)	(1,588)	(18,763)	(71,954)	4,771	(491,517)
Gross profit	963,269	20,469	676	1,360	8,016	—	993,790
Unallocated items:							
Other revenue							30,088
Selling and distribution expenses							(139,767)
General and administrative expenses							(94,003)
Research expenses							(53,170)
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							<u>725,134</u>

Inter-segment revenue represents the sales of fruits & 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.



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6. SEGMENT INFORMATION (Continued)

Analysis of business segment results for the year ended 30 June 2002

	Growing and sales of crops RMB'000	Breeding and sales of livestock RMB'000	Sales of ancillary food products RMB'000	Total RMB'000 (Restated)
Sales to external customers	1,128,253	21,356	2,524	1,152,133
Cost of sales	(292,305)	(5,982)	(1,889)	(300,176)
Gross profit	835,948	15,374	635	851,957
Unallocated items:				
Other revenue				28,434
Selling and distribution expenses				(104,134)
General and administrative expenses				(56,334)
Research expenses				(46,000)
Other operating expenses				(9,142)
Profit from operations				664,781
Finance costs				(6,028)
Share of profits less losses of associates				19,080
Profit from ordinary activities before taxation				677,833
Taxation				(55,959)
Profit from ordinary activities after taxation				621,874
Minority interests				50
Profit attributable to shareholders				<u>621,924</u>

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 2003 and 2002. Consequently, no further segment information by business activity is presented.



NOTES TO THE FINANCIAL STATEMENTS

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6. SEGMENT INFORMATION (Continued)

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 2003 and 2002. Consequently, no segment information by geographical area is presented.

7. OTHER OPERATING EXPENSES

	2003 RMB'000	2002 RMB'000
Expenses incurred for idle farmlands and maintenance	23,823	8,503
Natural loss of growing crops	2,367	15
Loss on disposal of fixed assets	5,366	—
Others	1,813	624
	<hr/> 33,369 <hr/>	<hr/> 9,142 <hr/>

8. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

(a) Finance costs

	2003 RMB'000	2002 RMB'000
Interest on bank loans wholly repayable within five years	10,749	3,092
Bank charges	4,596	2,936
	<hr/> 15,345 <hr/>	<hr/> 6,028 <hr/>



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8. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (Continued)

(b) Staff costs

	2003 RMB'000	2002 <i>RMB'000</i>
Salaries, wages and other benefits	133,254	100,317
Retirement benefits costs	1,655	645
	134,909	100,962

(c) Other items

	2003 RMB'000	2002 <i>RMB'000</i>
Amortisation of negative goodwill	(8,136)	(8,136)
Auditors' remuneration		
— Current year	4,155	2,446
— Under-provision in prior year	1,269	—
Depreciation of owned fixed assets (net of amount capitalised in inventories)	52,971	17,589
Operating lease expenses		
— land and buildings	50,127	35,529
— motor vehicles	575	431
Amortisation of computer software development cost	19,591	—
Amortisation of deferred development costs	3,150	2,461
Amortisation of long-term prepaid rentals (net of amount capitalised in inventories)	9,078	6,303
Amortisation of deferred expenditure	1,652	—
Research expenses	53,170	46,000
Loss on disposal of fixed assets	5,366	—



NOTES TO THE FINANCIAL STATEMENTS

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9. TAXATION

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

	Note	2003 RMB'000	2002 RMB'000
PRC income tax	(i)	—	54,483
Hong Kong profits tax	(ii)	—	—
		—	54,483
Share of taxation attributable to an associate	(iii)	2,838	1,476
		2,838	55,959
		2,838	55,959

- (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, 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 is no estimated assessable profits (2002: Nil) for the Company and its subsidiaries operating in Hong Kong during the year.
- (iii) It represents the share of PRC income tax charged on the assessable profits of Lucky Team Biotech Development (Hepu) Limited ("Hepu"), a wholly owned subsidiary of the Group's 49% owned associate.

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 has been lapsed during the year ended 30th June 2002. Accordingly, Hepu has been subject to a reduced income tax rate of 7.5% for a tax reduction period of 3 years.



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9. TAXATION (continued)

- (iv) No deferred tax has been recognised in the financial statements as there has been no material timing differences for tax purposes.

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of RMB155,891,000 (2002: RMB9,197,000) which has been dealt with in the financial statements of the Company.

11. EARNINGS PER SHARE

The calculation of the earnings per share is based on the profit attributable to shareholders of RMB725,134,000 (2002: 621,924,000) and the weighted average number of 1,916,769,000 (2002: 1,793,753,000) ordinary shares in issue during the year.

There was no significant potential dilutive ordinary shares in existence for the years ended 30 June 2003 and 2002, therefore, no diluted earnings per share was presented.

12. DIVIDENDS

	2003		2002	
	<i>RMB per share</i>	<i>RMB'000</i>	<i>RMB per share</i>	<i>RMB'000</i>
Final dividend proposed of HK\$0.0349 (2002: HK\$0.090) per ordinary share	<u>0.037</u>	<u>70,857</u>	<u>0.095</u>	<u>182,490</u>

At a meeting held on 21 October 2003, the directors proposed a final dividend of HK\$0.0349 (equivalent to RMB0.037) per ordinary share and to grant bonus issue of shares of HK\$0.1 each, on the basis of one share for every twenty shares held by the shareholders whose names appear on the register of shareholder of the Company on 19 December 2003.

Both dividends and issue of bonus shares are subject to the approval by the shareholders in general meeting and not yet accounted for in current year's financial statements.



13. RETIREMENT BENEFIT COSTS

The Group has joined a retirement scheme organised by the Provincial Government of Fujian for its PRC eligible employees and is required to contribute 22.2% of the eligible employees' basic salaries to the scheme.

The Group also operates a MPF Scheme for the eligible employees in Hong Kong. The Group contributes 5% of the employees' relevant income each month as defined in the MPF Schemes Ordinance, subject to a maximum of HK\$1,000 per person.

As at 30 June 2003, the Group had contributions payable to the above retirement schemes aggregating RMB34,290 (2002: RMB30,000), as included in the other payables and accrued charges under current liabilities in the consolidated balance sheet.

14. DIRECTORS' REMUNERATION

The aggregate amounts of emoluments paid and payable to the directors of the Company during the year are:

	2003 RMB'000	2002 RMB'000
Fees	—	—
Salaries and other emoluments		
— Executive Directors	3,441	3,015
— Independent non-executive Directors	56	56
Retirement benefit costs		
— Executive Directors	38	38
— Independent non-executive Directors	—	—
	3,535	3,109

The above includes an operating lease rental of RMB483,000 (2002: RMB 483,000) paid by the Group for a quarter provided to an Executive Director.

The above emoluments also include the value of share options granted to certain directors under the Company's share option scheme as stated in note 30.



NOTES TO THE FINANCIAL STATEMENTS

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14. DIRECTORS' REMUNERATION (continued)

The remuneration of the directors is within the following bands:

	2003 Number of directors	2002 Number of directors
Emoluments		
RMB Nil to RMB 1,000,000	5	5
RMB 1,000,001 to RMB 2,000,000	1	1

No directors of the Company waived any emoluments and no emoluments was paid or payable by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office during the year.

15. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Three (2002: Three) of the five highest paid individuals are directors whose emoluments have been included above. Details of the emoluments paid to the remaining two (2002: two) highest paid individuals are as follows:

	2003 RMB'000	2002 RMB'000
Salaries and other benefits-in-kind	1,575	1,763
Retirement benefit costs	14	25
	1,589	1,788

The emoluments of two (2002: two) individuals with the highest emoluments within the following bands:

	2003 Number of individuals	2002 Number of individuals
Emoluments		
RMB Nil to RMB1,000,000	2	1
RMB1,000,001 to RMB1,500,000	—	1



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16. FIXED ASSETS

The Group

	Leasehold improvements RMB'000	Land and building RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Farmland infrastruc- ture RMB'000	Computer equipment RMB'000	Orchard RMB'000	Intermediate life plants RMB'000	Total RMB'000
Cost									
At 1 July 2002	1,227	—	9,102	6,908	426,823	—	42,147	4,652	490,859
Additions	5	—	14,019	3,225	80,680	—	164,493	3,778	266,200
Transfer from construction- in-progress (Note 17)	28,399	65,000	—	—	244,556	22,000	—	—	359,955
Disposals	—	—	(262)	(40)	(14,201)	—	(409)	(3,707)	(18,619)
At 30 June 2003	29,631	65,000	22,859	10,093	737,858	22,000	206,231	4,723	1,098,395
Accumulated depreciation									
At 1 July 2002	337	—	1,085	1,014	23,470	—	701	395	27,002
Charge for the year	1,804	1,887	2,926	1,187	47,626	4,400	1,321	473	61,624
Disposals	—	—	(79)	(11)	(1,710)	—	(2)	(697)	(2,499)
At 30 June 2003	2,141	1,887	3,932	2,190	69,386	4,400	2,020	171	86,127
Net book value									
At 30 June 2003	27,490	63,113	18,927	7,903	668,472	17,600	204,211	4,552	1,012,268
At 30 June 2002	890	—	8,017	5,894	403,353	—	41,446	4,257	463,857

Farmland infrastructure includes films, green house facilities, ditches, roads and others.

Intermediate life plants are aloe veras growing as at year end.

The Group's land and building is held under long term leases in the PRC.



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17. CONSTRUCTION-IN-PROGRESS

	2003 RMB'000	2002 RMB'000
At 1 July	269,370	73,160
Additions	462,439	393,001
Acquisition of a subsidiary (Note 33)	—	80,808
Transfer to fixed assets (Note 16)	(359,955)	(277,599)
	<hr/>	<hr/>
At 30 June	<u>371,854</u>	<u>269,370</u>

18. COMPUTER SOFTWARE DEVELOPMENT COST

	2003 RMB'000	2002 RMB'000
Cost		
At 1 July	56,000	55,000
Additions	2,773	1,000
	<hr/>	<hr/>
At 30 June	<u>58,773</u>	<u>56,000</u>
Accumulated amortisation		
At 1 July	—	—
Amortisation for the year	19,591	—
	<hr/>	<hr/>
At 30 June	<u>19,591</u>	<u>—</u>
Net carrying value	<u>39,182</u>	<u>56,000</u>

Computer software development cost represents the software cost incurred for the establishment of the Group's computerised information system. Computer software development cost recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

The Group also incurred hardware cost amounting to RMB22,000,000 for this information system which was transferred from construction-in-progress to the fixed assets as at 30 June 2003 (2002: RMB22,000,000 included in construction-in-progress).



NOTES TO THE FINANCIAL STATEMENTS

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19. DEFERRED DEVELOPMENT COSTS

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Cost		
At 1 July	74,200	51,700
Additions	6,430	22,500
	<hr/>	<hr/>
At 30 June	80,630	74,200
	<hr/>	<hr/>
Accumulated amortisation		
At 1 July	4,718	2,257
Amortisation for the year	3,150	2,461
	<hr/>	<hr/>
At 30 June	7,868	4,718
	<hr/>	<hr/>
Net carrying value	72,762	69,482
	<hr/> <hr/>	<hr/> <hr/>

20. LONG-TERM PREPAID RENTALS

This represents prepayment of long-term rentals of farmland and a research centre with remaining lease terms ranging from 16 to 70 years under operating leases. The movement of the long-term prepaid rentals during the year is as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Cost		
At 1 July	456,470	244,194
Additions	187,916	215,276
Early termination of lease (<i>Note</i>)	(22,572)	(3,000)
	<hr/>	<hr/>
At 30 June	621,814	456,470
	<hr/>	<hr/>
Accumulated amortisation		
At 1 July	12,949	4,758
Amortisation for the year	12,274	8,283
Early termination of lease (<i>Note</i>)	(1,306)	(92)
	<hr/>	<hr/>
At 30 June	23,917	12,949
	<hr/>	<hr/>
Net carrying value	597,897	443,521
	<hr/> <hr/>	<hr/> <hr/>



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20. LONG-TERM PREPAID RENTALS (continued)

Note: During the year ended 30 June 2003, four long-term operating leases (2002: one) on farmland were terminated. Pursuant to the termination agreement, the relevant unamortised long-term prepaid rentals of RMB21,266,000 (2002: RMB2,908,000) had been refunded to the Group.

21. DEFERRED EXPENDITURE

This represents payment of farmland refurbishment during the year. The movement of the deferred expenditure is as follows:

	2003 RMB'000	2002 <i>RMB'000</i>
Cost		
Additions and at 30 June	31,534	—
Accumulated amortisation		
Amortisation for the year and at 30 June	(1,652)	—
Net carrying value	29,882	—

22. INTERESTS IN SUBSIDIARIES

	2003 RMB'000	2002 <i>RMB'000</i>
Unlisted shares, at cost	200,665	200,665
Amounts due from subsidiaries	1,478,887	1,027,686
	1,679,552	1,228,351

Except for shareholder's loans (the "Shareholder's Loans") of US\$45,000,000 (equivalent to RMB371,639,000) and HK\$250,000,000 (equivalent to RMB264,700,000) (2002: total of RMB264,700,000) which will be repayable in the second and the fourth year respectively of the balance sheet date, all other balances due from subsidiaries have no fixed terms of repayment. All the balances are unsecured and interest free.

The Company's interests in certain subsidiaries and the Shareholder's Loans are pledged as securities for the Company's banking facilities as shown in note 32.

Particulars of the principal subsidiaries of the Group at 30 June 2003 are set out in note 36.



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23. INTERESTS IN ASSOCIATES

	2003 RMB'000	2002 RMB'000
Share of net assets	322,442	287,477
Negative goodwill on acquisition	(162,717)	(162,717)
Less: Accumulated amortisation	16,272	8,136
	175,997	132,896
Amount due to an associate	(80)	—
Shareholder's loan	7,350	7,350
	183,267	140,246

Amount due to an associate and the shareholders' loan are unsecured, interest-free and repayable on demand.

Particulars of the associates of the Group at 30 June 2003 are as follows:

Company	Place of incorporation	Principal activity and place of operation	Particulars of issued/registered and paid up capital	Interest held indirectly
Newasia Global Limited ("Newasia") #	British Virgin Islands	Investment holding in Hong Kong	100,000 ordinary share of US\$1 each	49%
Lucky Team Biotech Development (Hepu) Limited ("Hepu") **	PRC	Operation of a citrus farm in PRC	RMB80,000,000	49%
Litian Biological Science & Technology Development (Xinfeng) Co Ltd ("Xinfeng") **	PRC	Not yet commenced business	US\$745,000	49%

Not audited by Charles Chan, Ip and Fung CPA Limited.

* Wholly foreign owned enterprises



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23. INTERESTS IN ASSOCIATES (continued)

For the year ended 30 June 2003, the key consolidated financial information of Newasia, Hepu and Xinfeng is as follows:

	2003 RMB'000	2002 <i>RMB'000</i>
Non-current assets	713,981	612,202
Current assets	52,502	52,886
Current liabilities	(108,438)	(78,400)
Turnover	186,064	124,689
Profit for the year	71,358	35,927

24. INVENTORIES

	2003 RMB'000	2002 <i>RMB'000</i>
Growing crops	58,203	51,832
Livestock	13,380	6,142
Agricultural materials (Note)	1,863	2,402
Merchandise for resale	7,051	—
	80,497	60,376

At 30 June 2003, all inventories were stated at cost.

Note: Agricultural materials include seeds, fertilizers and pesticides not yet utilised as at the year end.



NOTES TO THE FINANCIAL STATEMENTS

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25. TRADE RECEIVABLES

Credit terms granted to customers are as follows:

Type of customers	Credit term
Local wholesale and retail sales	Cash on delivery
Local sales to institutional customers (including hotels and schools)	15 days to 30 days after delivery
Sales to export trading companies	15 days to 30 days after delivery
Direct sales to overseas customers	Cash on delivery or up to 150 days after delivery depending on the financial strengths of individual customers

The aging of Group's trade receivables is analysed as follows:

	2003 RMB'000	2002 RMB'000
0 — 1 month	63,973	43,039
1 — 3 months	4,003	14,758
Over 3 months	1,431	3,441
	<hr/>	<hr/>
	69,407	61,238
	<hr/> <hr/>	<hr/> <hr/>



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26. CASH AND BANK BALANCES

Cash and bank balances of the Group as at the balance sheet date are analysed as follows:

	2003				
	Kept in PRC		Kept in Hong Kong & Japan		Total
	In RMB	In foreign	In RMB	In foreign	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at banks and in hand	212,025	160,138	—	370,714	742,877
Cash and cash equivalents in the consolidated cash flow statement	212,025	160,138	—	370,714	742,877
Pledged time deposit against short term bank loan (Note 32)	—	21,176	—	—	21,176
Cash and cash equivalents in the consolidated balance sheet	212,025	181,314	—	370,714	764,053
Long-term bank deposits	—	—	—	103,233	103,233
Total	212,025	181,314	—	473,947	867,286

	2002				
	Kept in PRC		Kept in Hong Kong		Total
	In RMB	In foreign	In RMB	In foreign	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at banks and in hand	129,499	260,818	—	500,726	891,043
Cash and cash equivalents in the consolidated cash flow statement **	129,499	260,818	—	500,726	891,043
Pledged time deposit against short term bank loan (Note 32)	—	—	—	—	—
Cash and cash equivalents in the consolidated balance sheet	129,499	260,818	—	500,726	891,043
Long-term bank deposits	—	105,880	—	—	105,880
Total	129,499	366,698	—	500,726	996,923



NOTES TO THE FINANCIAL STATEMENTS

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26. CASH AND BANK BALANCES (continued)

The conversion of the Renminbi denominated balances into foreign currencies and the transfer of these balances out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The Company's cash and bank balances of RMB219,311,000 (2002: RMB451,902,000) were all denominated in foreign currencies and kept in Hong Kong.

** Cash and cash equivalents as at 30 June 2002 has been restated from RMB675,067,000 to RMB891,043,000 according to the adoption of SSAP 15 (Revised) "Cash flow statements".

27. AMOUNT DUE TO A RELATED COMPANY

The balance arose from purchases of agricultural materials, as detailed in note 35 below, from a company which is majority owned by Mr. Kwok Ho, the Chairman and a controlling shareholder of the Company. They are trading nature and aged within 3 months.

28. TRADE PAYABLES

The aging of Group's trade payables is analysed as follows:

	2003 RMB'000	2002 RMB'000 (Restated)
0 — 1 month	8,645	1,510
1 — 3 months	3,300	7
Over 3 months	4,227	—
	16,172	1,517

29. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.1 each		
	<i>No. of shares</i>	<i>HK\$'000</i>	<i>RMB'000</i>
At 30 June 2002 and 2003	<u>5,000,000,000</u>	<u>500,000</u>	<u>527,515</u>



NOTES TO THE FINANCIAL STATEMENTS

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29. SHARE CAPITAL (continued)

	Issued and fully paid ordinary shares of HK\$0.1 each		
	No. of shares	HK\$'000	RMB'000
At 1 July 2001	1,600,000,000	160,000	169,824
Issue of shares	320,000,000	32,000	33,965
At 30 June 2002	1,920,000,000	192,000	203,789
Repurchase of shares (Note)	(4,938,000)	(494)	(523)
At 30 June 2003	1,915,062,000	191,506	203,266

Note:

During the year, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

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

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled was transferred from the retained profits to the capital redemption reserve as shown in note 31. The premium paid on the repurchase of the shares of RMB5,778,000 was charged to the share premium account.



30. SHARE OPTION SCHEME

Pursuant to the resolution of an extraordinary general meeting of the Company held on 19 June 2002, the share option scheme adopted on 23 November 2000 was terminated and a new share option scheme "New Scheme" was approved and adopted. Under the New Scheme, the Company may grant options to various classes of participants, among others, including directors (whether executive or non executive) and employees of the Group. During the year ended 30 June 2003, options in respect of 145,200,000 shares were granted to the relevant participants under the New Scheme.

Movement in share options

Number of shares	Year ended 30 June 2003		Year ended 30 June 2002		Total
	New Share Option Scheme	New Share Option Scheme	Old Share Option Scheme		
1 July	—	—	—	—	—
Issued	145,200,000	—	—	—	—
30 June	145,200,000	—	—	—	—
Options vested at 30 June	—	—	—	—	—

There were no share options exercised during the year ended 30 June 2003 (2002: Nil).



NOTES TO THE FINANCIAL STATEMENTS

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30. SHARE OPTION SCHEME (continued)

Terms of unexpired and unexercised share options at balance sheet date

At 30 June 2003, options to subscribe for 145,200,000 shares under the New Share Option Scheme (2002: Nil) were outstanding:

Date of grant	Exercise period	Exercise price HK\$	30 June 2003 Number of shares	30 June 2002 Number of shares
28 January 2003	1 July 2003 to 27 January 2013	1.66	45,500,000	—
28 January 2003	1 January 2004 to 27 January 2013	1.66	20,000,000	—
28 January 2003	1 January 2005 to 27 January 2013	1.66	20,000,000	—
19 June 2003	1 July 2003 to 18 June 2013	1.13	48,700,000	—
19 June 2003	1 July 2004 to 18 June 2013	1.13	7,000,000	—
24 June 2003	1 July 2003 to 23 June 2013	1.14	4,000,000	—
			145,200,000	—

Share options granted during the year

Date of grant	Exercise period	Exercise price HK\$	30 June 2003 Number of shares	30 June 2002 Number of shares
28 January 2003	1 July 2003 to 27 January 2013	1.66	45,500,000	—
28 January 2003	1 January 2004 to 27 January 2013	1.66	20,000,000	—
28 January 2003	1 January 2005 to 27 January 2013	1.66	20,000,000	—
19 June 2003	1 July 2003 to 18 June 2013	1.13	48,700,000	—
19 June 2003	1 July 2004 to 18 June 2013	1.13	7,000,000	—
24 June 2003	1 July 2003 to 23 June 2013	1.14	4,000,000	—
			145,200,000	—



NOTES TO THE FINANCIAL STATEMENTS

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31. RESERVES

(a) Group

	Share premium RMB'000	Capital reserve RMB'000	Capital redemption reserve RMB'000	Statutory common reserve RMB'000	Statutory welfare reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 July 2001 as previously reported	411,664	94,894	—	26,881	731	303,733	837,903
Adoption of SSAP 9 (revised)	—	—	—	—	—	123,808	123,808
At 1 July 2001 as restated	411,664	94,894	—	26,881	731	427,541	961,711
Issue of shares	747,226	—	—	—	—	—	747,226
Issuing expenses	(25,850)	—	—	—	—	—	(25,850)
Profit for the year	—	—	—	—	—	621,924	621,924
2000/2001 final dividends paid	—	—	—	—	—	(148,654)	(148,654)
Appropriation	—	—	—	53,743	—	(53,743)	—
At 30 June 2002 and 1 July 2002	1,133,040	94,894	—	80,624	731	847,068	2,156,357
Premium on share repurchased	(5,778)	—	—	—	—	—	(5,778)
Transfer to capital redemption reserve	—	—	523	—	—	(523)	—
Profit for the year	—	—	—	—	—	725,134	725,134
2001/2002 final dividends paid	—	—	—	—	—	(182,490)	(182,490)
Appropriation	—	—	—	3,487	—	(3,487)	—
At 30 June 2003	<u>1,127,262</u>	<u>94,894</u>	<u>523</u>	<u>84,111</u>	<u>731</u>	<u>1,385,702</u>	<u>2,693,223</u>



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31. RESERVES (continued)

(a) Group (continued)

Note:

According to the 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 respective 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 respective 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 FIEs.

(b) Company

	Share premium <i>RMB'000</i>	Capital redemption reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 July 2001 previously reported	612,329	—	2,144	614,473
Adoption of SSAP 9 (revised)	—	—	123,808	123,808
At 1 July 2001 as restated	612,329	—	125,952	738,281
Issue of shares	747,226	—	—	747,226
Issuing expenses	(25,850)	—	—	(25,850)
Profit for the year	—	—	9,197	9,197
2000/2001 final dividends paid	—	—	(148,654)	(148,654)
At 30 June 2002 and 1 July 2002	1,333,705	—	(13,505)	1,320,200
Premium on shares repurchased	(5,778)	—	—	(5,778)
Transfer to capital redemption reserve	—	523	(523)	—
Profit for the year	—	—	155,891	155,891
2001/2002 final dividends paid	—	—	(182,490)	(182,490)
At 30 June 2003	<u>1,327,927</u>	<u>523</u>	<u>(40,627)</u>	<u>1,287,823</u>



NOTES TO THE FINANCIAL STATEMENTS

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32. BANK LOANS — SECURED

At 30 June 2003, the bank loans were repayable as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 1 year or on demand	462,932	—	412,932	—
After 1 year but within 2 years	—	—	—	—
After 2 years but within 5 years	—	165,173	—	165,173
	—	165,173	—	165,173
	462,932	165,173	412,932	165,173

On 16 January, 2002, the Company entered into a loan agreement (the "Loan Agreement") with, inter alios, a syndicate of banks relating to a loan facility of up to US\$50,000,000 (the "Loan"). The Loan is 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 and repayable during the period between 18 months and 36 months after the date of the Loan Agreement. During the year ended 30 June 2002, the Company made the first draw down of US\$20,000,000 (equivalent to RMB 165,173,000).

During the year ended 30 June 2003, the Company fully utilised the Loan facility by making the second draw down of US\$30,000,000 (equivalent to RMB247,759,000). The loan is interest bearing at London Inter-Bank Offered Rate plus 1.875% per annum which is secured by the Company's interests in certain subsidiaries and the Shareholder's Loans as shown in note 22.

The first loan repayment of US\$12,500,000 (equivalent to RMB103,233,000) was made on 16 July 2003. The remaining balance of US\$31,000,000 (equivalent to RMB256,018,000) and US\$6,500,000 (equivalent to RMB53,681,000) were early fully repaid on 18 September 2003 and 25 September 2003 respectively.

During the year ended 30 June 2003, the Group obtained certain short-term bank loans amounted to RMB50,000,000 (2002: Nil) in the PRC which were secured by fixed deposits amounted to HK\$20,000,000 (equivalent to RMB21,176,000) (2002: Nil) as shown in note 26 and corporate guarantee executed by one of its subsidiaries.



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33. ACQUISITION OF A SUBSIDIARY

	2003 RMB'000	2002 <i>RMB'000</i>
Net assets acquired		
Construction-in-progress	—	80,808
Other receivables, deposits and prepayments	—	25
	<u>—</u>	<u>80,833</u>
	<u>—</u>	<u>80,833</u>
Satisfied by cash	—	80,833
	<u>—</u>	<u>80,833</u>

Analysis of the net cash outflow in respect of acquisition of subsidiaries:

	2003 RMB'000	2002 <i>RMB'000</i>
Cash consideration	—	(80,833)
	<u>—</u>	<u>(80,833)</u>
Net cash outflow in respect of the acquisition of subsidiaries	—	(80,833)
	<u>—</u>	<u>(80,833)</u>

The subsidiary acquired during the year ended 30 June 2002 did not contribute significant cash flows to the Group.



NOTES TO THE FINANCIAL STATEMENTS

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34. COMMITMENTS

(a) Capital commitment

At 30 June 2003, the Group had the following capital commitments:

	2003 RMB'000	2002 RMB'000
Contracted but not provided for		
— Research and development expenditures	20,700	73,500
— Purchase of fixed assets	76,438	140,646
	97,138	214,146
Authorised but not contracted for		
— Purchase of fixed assets	358,676	591,274
Total	455,814	805,420

(b) Operating leases commitment

At 30 June 2003, the Group had future minimum lease payments under non-cancellable operating leases as follows:

	Within 1 year RMB'000	After 1 year but within 5 years RMB'000	After 5 years RMB'000	Total RMB'000
At 30 June 2003				
Land & buildings	65,859	228,606	1,113,693	1,408,158
Others	672	155	—	827
Total	66,531	228,761	1,113,693	1,408,985
At 30 June 2002				
Land & buildings	44,109	170,383	949,433	1,163,925
Others	268	228	—	496
Total	44,377	170,611	949,433	1,164,421



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35. RELATED PARTY TRANSACTIONS

The Group entered into following material transactions with a related party during the year:

	2003 RMB'000	2002 RMB'000
Fujian Chaoda Agricultural Produce Trading Company Limited		
— Purchase of organic fertilizers	136,311	105,585
— Purchase of plant growth regulators	2,557	3,004
	<u>138,868</u>	<u>108,589</u>

- (i) The above related party is a company majority owned by Mr. Kwok Ho.
- (ii) The directors are of the opinion that these transactions were conducted on normal commercial terms in the normal course of business at price and terms not less than those charged to or contracted with other third parties.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of principal subsidiaries of the Group at 30 June 2003 are as follows:

Company	Place of incorporation	Principal activities and place of operation	Particulars of issued/ registered and paid up capital	Interest held
Held directly:				
Timor Enterprise Limited	British Virgin Islands	Investment holding in Hong Kong	60,000 ordinary shares of US\$1 each	100%
Insight Decision Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
Chaoda Vegetable & Fruits Trading Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%
Huge Market Investments Limited	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1	100%



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36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Company	Place of incorporation	Principal activities and place of operation	Particulars of issued/ registered and paid up capital	Interest held
Held indirectly:				
Fuzhou Chaoda Modern Agriculture Development Company Limited **	PRC	Growing and sales of crops, breeding and sales of livestock in PRC	HK\$156,000,000	100%
Fujian Chaoda Green Agriculture Development Company Limited *	PRC	Growing and sales of crops, breeding and sales of livestock in PRC	RMB40,000,000	100%
Fujian Chaoda Livestock Company Limited ***	PRC	Export trading (Note)	RMB42,000,000	100%
Chaoda Vegetable & Fruits Limited	Hong Kong	Distribution and trading of crops in Hong Kong	100,000 ordinary shares of HK\$1 each	100%
臨海超大現代農業發展有限公司 **	PRC	Growing and sales of crops in PRC	US\$190,000	100%
Fujian Chaoda Liancheng Foodstuffs Company Limited *	PRC	Sales of ancillary food products in PRC	RMB15,000,000	91%
福州超大超市發展有限公司 ***	PRC	Supermarkets chain operation in PRC	RMB20,000,000	95%
上海超大精文綠亭配送服務有限公司 ***	PRC	Sales of crops in PRC	RMB10,000,000	70%
Desire Star (Fujian) Development Company Limited **	PRC	Property holding in PRC	US\$5,000,000	100%
超大現代農業集團東京株式會社 #	Japan	Sales of crops in Japan	JPY¥10,000,000	60%



NOTES TO THE FINANCIAL STATEMENTS

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36. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Note: During the year, the principal activity of Fujian Chaoda Livestock Company Limited has been changed from breeding and sales of livestock in PRC to export trading.

Not audited by Charles Chan, Ip & Fung CPA Ltd.

* Sino-foreign owned equity joint ventures

** Wholly foreign owned enterprises

*** Private limited liability companies

37. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 30 June 2003 to be Kailey Investment Ltd, which is incorporated in the British Virgin Islands.

38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.



RESULTS

	Year ended 30 June				2003 RMB'000
	1999 RMB'000	2000 RMB'000	2001 RMB'000	2002 RMB'000	
Turnover	76,991	154,225	725,546	1,152,133	1,485,307
Operating profit	48,655	92,342	444,032	664,781	703,569
Finance costs	—	—	(1,588)	(6,028)	(15,345)
Share of profit less losses of associates	—	—	—	19,080	37,803
Profit before taxation	48,655	92,342	442,444	677,833	726,027
Taxation	(16,148)	(16,622)	(1,623)	(55,959)	(2,838)
Profit after taxation	32,507	75,720	440,821	621,874	723,189
Minority interests	(6,642)	(8,406)	—	50	1,945
Profit attributable to shareholders	<u>25,865</u>	<u>67,314</u>	<u>440,821</u>	<u>621,924</u>	<u>725,134</u>

ASSETS AND LIABILITIES

	As at 30 June				2003 RMB'000
	1999 RMB'000	2000 RMB'000 (Restated) (Note 1)	2001 RMB'000 (Restated) (Note 1)	2002 RMB'000	
Total assets	79,169	186,545	1,243,526	2,677,623	3,520,011
Total liabilities excluding minority interests	(31,389)	(73,329)	(111,991)	(312,177)	(619,913)
Minority interests	(10,557)	—	—	(5,300)	(3,609)
Balance of shareholders' funds	<u>37,223</u>	<u>113,216</u>	<u>1,131,535</u>	<u>2,360,146</u>	<u>2,896,489</u>



FIVE YEARS FINANCIAL SUMMARY

Notes:

- (1) The financial information of the financial years ended 30 June 2000 and 2001 have been restated for the effect arising from changes in accounting policies resulted from the adoption of SSAP 9 which is effective in the year ended 30 June 2002.
- (2) The summary of the Group's combined results for the 2 years ended 30 June 2000 and assets and liabilities as at 30 June 1999 and 2000 above were extracted from the Company's prospectus dated 5 December 2000 ("the Prospectus"). The Company was incorporated on 24 August 2000. The Group's combined results for the 2 years ended 30 June 2000 and combined assets and liabilities as at 30 June 1999 and 2000 have been prepared as if the Company had owned each subsidiary throughout the 2 years ended 30 June 2000, or since their respective dates of incorporation. The Group effectively increased its interests in Fuzhou Chaoda Modern Agriculture Development Company Limited, Fujian Chaoda Green Agriculture Development Company Limited and Fujian Chaoda Livestock Company Limited respectively from 80% to 100% in December 1999, 70% to 100% in January 2000 and 60% to 100% in January 2000. Accordingly, the minority interests in these companies, up to the respective dates of acquisition by the Group, have been recognised in the combined results for the 2 years ended 30 June 2000 and in the combined balance sheets as at 30 June 1999.



NOTICE IS HEREBY GIVEN that the Annual General Meeting of Chaoda Modern Agriculture (Holdings) Limited (the "Company") will be held at Salon IV, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on Friday, 19 December 2003 at 10:30 a.m. for the following purposes:

1. To receive and consider the Audited Financial Statements, Directors' Report and Auditors' Report for the year ended 30 June 2003;
2. To approve the final dividend for the year ended 30 June 2003;
3. To re-elect the retiring Directors and to authorise the Board of Directors (the "Board") to fix the remuneration of the Directors;
4. To re-appoint Auditors and to authorise the Board to fix the remuneration of the Auditors; and

as special businesses, to consider and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions:

5. **"THAT** the sum of approximately HK\$10,000,000 (being part of the amount standing to the credit of the share premium account of the Company) be capitalised in accordance with Article 142 of the Company's Articles of Association and **THAT** the Directors of the Company be authorised to allot and issue shares to apply the capitalized amount in making payment in full at par of not less than 96,073,100 shares ("Bonus Shares") of HK\$0.10 each in the share capital of the Company, such shares to be issued and allotted credited as fully paid-up and distributed by way of bonus to shareholders whose names appear on the Register of Members of the Company as at the close of business on 19 December 2003 (the "Shareholders"), as far as practicable, in the proportion of one Bonus Share for every twenty shares held by the Shareholders, such fully paid-up shares shall rank pari passu in all respects with the existing shares of the Company, and **THAT** no fractional Bonus Shares shall be allotted to the Shareholders but the fractional Bonus Shares shall be aggregated and sold for the benefit of the Company."
- 6A. **"THAT:**
 - (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to repurchase shares of HK\$0.10 each in the capital of the Company subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), as amended from time to time, be and is hereby generally and unconditionally approved;
 - (b) the approval in paragraph (a) above shall be in addition to any other authorisation given to the Directors of the Company and shall authorise the Directors on behalf of the Company during the Relevant Period to procure the Company to purchase its shares at a price determined by the Directors;



NOTICE OF ANNUAL GENERAL MEETING

- (c) the aggregate nominal amount of the shares which are authorised to be purchased by the Directors of the Company pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution as enlarged by the issue of shares pursuant to the capitalisation issue referred to in Resolution 5 above, and the said authority shall be limited accordingly; and
- (d) for the purposes of this resolution:
 - “Relevant Period” means the period from the date of passing of this resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or its Articles of Association to be held; or
 - (iii) the date upon which the authority set out in this resolution is revoked or varied by way of ordinary resolution of the Company in general meeting.”

6B. **“THAT:**

- (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above, shall be in addition to any other authorisation given to the Directors of the Company and shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval granted in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue; or (ii) the exercise of any option under the share option scheme of the Company adopted for the grant or issue to the eligible participants of the Company and/or any of its subsidiaries and/or associated companies of options to subscribe for or



rights to acquire shares; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with its Articles of Association, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution as enlarged by the issue of shares pursuant to the capitalisation issue referred to in Resolution 5 above, and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:

“Relevant Period” shall have the same meaning as ascribed to it under resolution set out in paragraph 6A(d) of the notice convening this Meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the Directors of the Company to holders of shares on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange, in any territory outside Hong Kong).”

6C. **“THAT:**

conditional upon the passing of the resolutions set out in paragraphs 6A and 6B of the notice convening this Meeting, the general mandate granted to the Directors of the Company to exercise the powers of the Company to allot, issue and otherwise deal with shares of the Company pursuant to the resolution set out in paragraph 6B of the notice convening this Meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to the resolution set out in paragraph 6A of the notice convening this Meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution as enlarged by the issue of shares pursuant to the capitalisation issue referred to in Resolution 5 above.”

7. To transact any other business.

By Order of the Board
Lee Yuet Wor
Company Secretary

Hong Kong, 21 October 2003



NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. The Register of Members of the Company will be closed from 15 December 2003 (Monday) to 19 December 2003 (Friday), both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the final dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, namely, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 12 December 2003 (Friday).
2. Any shareholder entitled to attend and vote at the Meeting is entitled to appoint one or more separate proxies to attend and, on a poll, to vote instead of him. A proxy need not be a shareholder of the Company.
3. To be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's principal office in Hong Kong at Room 2705, 27th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjourned Meeting.
4. With reference to Resolution 5 above, an application for listing of and permission to deal in the newly issued shares will be made to the Listing Committee of The Stock Exchange of Hong Kong Limited. Subject to the Resolution 5 being passed at the Annual General Meeting, it is expected that definitive share certificates will be posted at the risk of those entitled thereto on or about 30 January 2004 and that dealing in the newly issued shares will commence on 2 February 2004. The Company's shares have been admitted to Central Clearing and Settlement System (CCASS) and dealing in such shares may be settled through CCASS.
5. A circular setting out further information regarding the above resolutions nos. 6A to 6C will be despatched to the shareholders of the Company together with the Company's 2002/2003 Annual Report.

