



CHAODA MODERN AGRICULTURE (HOLDINGS) LIMITED

超大現代農業(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

FINAL RESULTS FOR THE YEAR ENDED 30TH JUNE 2002

FINAL RESULTS

The Board of Directors of Chaoda Modern Agriculture (Holdings) Limited (the “Company” or “Chaoda”) is pleased to announce the audited consolidated final results of the Company and its subsidiaries (the “Group”) for the year ended 30th June 2002, together with the comparative figures for the corresponding period in 2001 as follows:

	<i>Note</i>	2002 RMB'000	2001 RMB'000
Turnover	2	1,152,133	725,546
Cost of sales		(300,176)	(179,875)
Gross profit		851,957	545,671
Other revenue	2	19,202	10,997
Selling and distribution expenses		(104,134)	(61,325)
General and administrative expenses		(55,238)	(24,976)
Research expenses		(46,000)	(21,350)
Net other operating expenses		(1,006)	(4,985)
Operating profit	4	664,781	444,032
Finance costs		(6,028)	(1,588)
Share of results of associated companies		19,080	–
Profit before taxation		677,833	442,444
Taxation	5	(55,959)	(1,623)
Profit after taxation		621,874	440,821
Minority interests		50	–
Profit attributable to shareholders		621,924	440,821
Earnings per share – basic	6	RMB35 cents	RMB31 cents
Dividends	7	182,961	123,808

Notes:

1 Basis of preparation

The financial statements have been prepared under historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants (“HKSA”).

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

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The adoption of the above SSAPs does not have material impact on the Group’s financial statements for the years ended 30th June 2002 and 2001 except the adoption of SSAP 9 (revised).

The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the financial statements for the years ended 30th June 2000 and 2001 were RMB20 million and RMB123.8 million respectively, Under SSAP 9 (revised), these have been written back against opening reserves as at 1st July 2001 and 2002 and are now charged in the year in which they were declared.

2. Turnover and revenues

	2002	2001
	<i>RMB’000</i>	<i>RMB’000</i>
Turnover		
Sales of crops	1,128,253	705,721
Sales of livestock	21,356	15,948
Sales of ancillary food products	2,524	3,877
	1,152,133	725,546
Other revenue		
Interest income	19,202	10,997
Total revenues	<u>1,171,335</u>	<u>736,543</u>

3. Segment information

Analysis of business segment results for the year ended 30th 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
Turnover	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				19,202
Selling and distribution expenses				(104,134)
General and administrative expenses				(55,238)
Research expenses				(46,000)
Net other operating expenses				(1,006)
Operating profit				664,781
Finance costs				(6,028)
Share of results of associated companies				19,080
Profit before taxation				677,833
Taxation				(55,959)
Profit after taxation				621,874
Minority interests				50
Profit attributable to shareholders				621,924

Analysis of business segment results for the year ended 30th June 2001

	Growing and sales of crops <i>RMB'000</i>	Breeding and sales of livestock <i>RMB'000</i>	Sales of ancillary food products <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover	705,721	15,948	3,877	725,546
Cost of sales	<u>(170,538)</u>	<u>(6,440)</u>	<u>(2,897)</u>	<u>(179,875)</u>
Gross profit	535,183	9,508	980	545,671
Unallocated items:				
Other revenue				10,997
Selling and distribution expenses				(61,325)
General and administrative expenses				(24,976)
Research expenses				(21,350)
Net other operating expenses				<u>(4,985)</u>
Operating profit				444,032
Finance cost				<u>(1,588)</u>
Profit before taxation				442,444
Taxation				<u>(1,623)</u>
Profit attributable to shareholders				<u><u>440,821</u></u>

4. Operating profit

Operating profit is stated after crediting and charging the following:

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Crediting:		
Amortisation of negative goodwill	<u>8,136</u>	<u>—</u>
Charging:		
Depreciation of owned fixed assets (net of amount capitalised in inventories)	17,589	4,325
Staff costs	100,317	54,916
Retirement benefit costs	645	297
Amortisation of deferred development costs	2,461	1,007
Amortisation of long-term prepaid rentals (net of amount capitalised in inventories)	<u>6,303</u>	<u>3,507</u>

5. Taxation

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

	<i>Note</i>	2002 RMB'000	2001 RMB'000
PRC income tax	<i>(i)</i>	54,483	1,623
Hong Kong profits tax	<i>(ii)</i>	<u>—</u>	<u>—</u>
		54,483	1,623
Share of taxation attributable to associated companies		<u>1,476</u>	<u>—</u>
		<u>55,959</u>	<u>1,623</u>

- (i) PRC income tax represents the tax charges on the assessable profits of Fuzhou Chaoda Modern Agriculture Development Company Limited (“Chaoda Modern Agriculture”) and Fujian Chaoda Green Agriculture Development Company Limited (“Chaoda Green Agriculture”).

Chaoda Modern Agriculture and Chaoda Green Agriculture are productive foreign investment enterprises (“FIE”) and entitled to full exemption from PRC income tax for two years starting from their first profit-making year followed by a 50 % reduction for the next consecutive three years (“FIE Tax Holidays”) in accordance with the relevant tax rules and regulations applicable to FIE in the PRC. The 2 years tax exemption holidays of both Chaoda Modern Agriculture and Chaoda Green Agriculture have been lapsed during the year and since then, both companies are subject to a reduced income tax rate of 15% for a tax reduction period of 3 years.

No provision for PRC income tax has been made for other subsidiaries operating in the PRC as they either did not recognise any assessable profits or were still under the tax exemption holidays during the year.

- (ii) No provision for Hong Kong profits tax has been made as there is no estimated assessable profits (2001: Nil) for the Company and its subsidiaries operating in Hong Kong during the year.

6. Earnings per share

The calculation of the earnings per share is based on the profit attributable to shareholders of RMB621,924,000 (2001: RMB440,821,000) and the weighted average number of 1,793,753,000 (2001: 1,416,986,000) shares in issue during the year.

There was no potential dilutive ordinary shares in existence for the years ended 30th June 2002 and 2001, therefore, no diluted earnings per share was presented.

7. Dividends

	2002 (Note)		2001	
	RMB per share	RMB'000	RMB per share	RMB'000
Final, proposed, of HK\$0.090 (2001: HK\$0.073) per ordinary share	<u>0.095</u>	<u>182,961</u>	<u>0.077</u>	<u>123,808</u>

Note:

At a meeting held on 29th October 2002 the Directors proposed a final dividend of HK\$0.090 (equivalent to RMB0.095) per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits in the financial statements for the year ending 30th June 2003.

8. Reserves

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

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Transfer to statutory common reserve	53,743	26,881
Transfer to statutory welfare reserve	<u>—</u>	<u>165</u>

According to PRC rules and regulations and the Articles of Association of the Group's respective PRC subsidiaries:

Domestic enterprises are required to transfer 10% and 5% of its profits after tax to statutory common reserve and statutory welfare reserve respectively. The transfer to the statutory common reserve is required until it aggregates to 50% of the company's registered share capital.

FIEs are required to transfer 10% of its profits after tax to statutory common reserve. The transfer to the statutory common reserve is required until it aggregates to 50% of the company's registered share capital.

DIVIDENDS

The Board has recommended the payment of a final dividend of HK\$0.090 (equivalent to RMB0.095) per share for the year ended 30th June 2002 (2001: HK\$0.073 per share, equivalent to RMB0.077), subject to shareholders' approval at the forthcoming annual general meeting to be held on 11th December 2002, to the shareholders whose names appear on the Register of Members of the Company on 11th December 2002 and payable on or before 31st December 2002. No interim dividend was declared for the six months ended 31st December 2001 (2000: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 4th December 2002 (Wednesday), to 11th December 2002 (Wednesday), 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 Hong Kong Share Registrar, Abacus Share Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road, Central, Hong Kong not later than 4:00 p.m. on 3rd December 2002 (Tuesday).

REVIEW AND PROSPECTS

Financial Performance

The Group's turnover for the year ended 30th June 2002 was RMB1,152,133,000, representing an increase of 58.8% from that of previous year. The net profit attributable to shareholders for the year ended 30th June 2002 was RMB621,924,000, representing an increase of 41.1%, as compared to last year's figures.

Business Review

As one of the leading growers of organic and green vegetables and fruits in China, the Group had been actively seeking appropriate production bases across the country to achieve a rapid expansion of its business. During the year, the Group had significantly increased its farmland area from 62,429 mu (4,162 hectares) by 93.4% to 120,725 mu (8,048 hectares). The Group's major farmland areas are added in Nanjing of Jiangsu Province, Beijing, Shannxi Province and Fujian Province. The total number of production bases increased from 25 as at 30th June 2001 to 36 as at 30th June 2002.

Although China is one of the largest agricultural producers in the world, its farming operations have remained highly fragmented for many years. The consolidation of small farmlands into large farming corporations has recently begun to occur and is expected to become a major driving force in the reform of China's agricultural industry. At the same time, China is more concerned about food safety given the excessive use of chemical pesticides and chemical fertilisers in recent decades. More and more people are choosing organic, green and healthy food. Chaoda's vegetables and fruits provide the most suitable choice for them. Chaoda has been very successful in leasing new farmlands for the establishment of new production bases in different parts of China. Chaoda's production bases are now established in locations covering a wide geographical latitude of China. This enables Chaoda to supply various "anti-seasonal" vegetables and fruits on a year round basis.

Our overseas sales team had made substantial efforts to build up the Group's international sales network during the year. Apart from the development of our existing markets in the Asian region, the Group has successfully penetrated into the markets in North America and Europe, covering countries such as the United States, Canada, England, France, and Italy, etc.

The Group sells a wide range of over 130 species of agricultural products as compared with around 100 species last year. These broad product range is the major factor in allowing the Group to maintain a stable product mix over the past two years. Chaoda's premium high-end products are well accepted in both the domestic and export markets. As such, the Group has been able to maintain a similar average unit selling price of RMB2.29 per kg for the current year as the average unit selling price of RMB2.25 per kg in the previous year.

Prospects

Looking ahead, Chaoda has a vast room of expansion, especially in the post-WTO era.

Chaoda's prime objective is to take advantage of the significant opportunity arising from China's entry into the WTO. Leveraging China's cheaper production cost, Chaoda is mainly targeting to rapidly expand its export markets. The production chain is also being strengthened with the launch of research and development projects, the establishment of more sophisticated food processing and preserving facilities, in order to support the exponential growth in export sales. The recent establishment of a Japan subsidiary in Tokyo will provide a base for developing the Japanese market. Chaoda will continue to establish more subsidiaries in other parts of the world.

With regard to the domestic market, the Group seeks to enhance its retail presence by participating in both the "Green Stand project" in Shanghai and refurbishment of "Fresh Agricultural Produce Supermarket" in Fuzhou of Fujian Province. These two extensive retail networks have already been commenced operation and it is expected there will be an additional coverage of direct sales outlet in these cities by the forthcoming year end.

As before, the Group puts significant emphasis on research and development, by introducing, incubating and developing new species from many places in the world, as well as carrying out technology study on advanced food processing for ancillary agricultural products. In recognition of the Group's highly innovative research and development work, Chaoda was recently awarded the designation of "High Technology Enterprise" by the Fujian Provincial Government. Chaoda was also designated as "Dragon Head Enterprise" by Fujian Provincial Government.

Given the overwhelming demand for organic green food around the world in this 21st century, together with a huge population of 1.3 billion people in China, more and more customers are seeking healthy food and quality life-style. The continued promotion of the "Chaoda" brand is a key to further increase the Group's market share in both the local and overseas markets. Chaoda is confident that it will sustain its dominant position as a leading organic and green grower of vegetables and fruits. The "Chaoda" brand will become a symbol of healthy, safe and non-polluted food leaving a pleasing impression on our customers.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's turnover and net profit attributable to shareholders for the year ended 30th June 2002 was approximately RMB1,152,133,000 and RMB621,924,000 respectively, representing an increase of 58.8% and 41.1% respectively, as compared to those of last year.

Turnover for the year increased by 58.8% from last year's figure of RMB725,546,000. This increase principally resulted from the significant increase in land areas, and in particular, the increase in the weighted-average areas, i.e. the productive areas, has been the key driver. The weighted-average area of 74,556 mu for the year represents an increase of 48.1% from 50,328 mu for the last year. The Group's total farmland areas (excluding the citrus farm owned by an associated company) amounted to 120,725 mu as at 30th June 2002, representing an increase of 93.4% from 62,429 mu as at the end of last year.

Sales of agricultural produce for the year accounted for 97.9% of total turnover, while sales of livestock accounted for 1.9% and sales of ancillary food products accounted for 0.2%. There has not been any material change to the sales mix by product.

Domestic sales represented 64.6% of the total turnover for the year while export sales (by means of direct sales to overseas customers and sales locally to PRC trading companies) took up the remaining 35.4%. There has not been any material change to the sales mix by market.

Overall gross profit margin dropped slightly from 75.2% last year to 73.9% this year, representing a decrease of 1.3 percentage points. The similar gross profit margins over the past two years is primarily the result of the Group's efforts to maximise its profitability, strengthen its internal management and maintain lower cost structure.

The percentage of selling and distribution expenses, as well as general and administrative expenses for the year amounted to 9.0% and 4.8% of turnover respectively, which are close to percentage levels of 8.5% and 3.4% respectively in the immediately preceding year. The higher percentage for this year's selling and distribution expenses is attributable to the exploration of new export markets in North America and Europe during the year.

The pre-tax profit margin for the year was 58.8%, which is similar to the pre-tax profit margin of 61.0% in the previous year. The net profit margin decreased to 54.0% as compared to last year's figure of 60.8%. The decline in net profit margin is the result of the lapse in the second half of the current financial year, of the 2-year tax holidays enjoyed by certain major subsidiaries in the PRC. Those subsidiaries now enjoy a 50% tax reduction for the following 3 consecutive years.

ASSOCIATED COMPANIES

In July 2001, the Group acquired a 49% equity interest in a citrus farm in Guangxi Province for a cash consideration in the sum of RMB107 million (being approximately HK\$20 million and RMB87 million). The citrus farm made a pre-tax profit contribution of RMB19,080,000 to the Group in the current year. After deducting the relevant share of profits tax of RMB1,476,000, the net return to the Group was RMB17,604,000.

USE OF SHARE ISSUE PROCEEDS

For the year ended 30th June 2002, the Group had applied part of the listing and placement proceeds respectively as follows:

I. Application of funds from listing in December 2000:

- a. Approximately RMB66.9 million for the establishment of new production bases;
- b. Approximately RMB94.0 million for the establishment of basic facilities for new production bases, such as greenhouse facilities, irrigation systems and the setting up of food processing factories;
- c. Approximately RMB9.2 million for the funding of marketing and promotional activities in connection with the China domestic and export sales;
- d. Approximately RMB1.3 million for the funding of the expansion of the Boer goats breeding business; and
- e. Approximately RMB42.4 million for setting up additional retail sales outlets in the PRC.

II. Application of funds from top-up placement in November 2001:

- a. Approximately RMB7.4 million for the investment in Newasia Global Limited;
- b. Approximately RMB100.1 million for the construction of irrigation systems and infrastructure facilities in Nanjing and Beijing production bases; and
- c. Approximately RMB7.0 million for the setting up of retail green stand to sell organic green vegetables and fruits in Shanghai to expand sales network.

The net proceeds which have not yet been utilised will be used for the intended applications as set out in the Company's prospectus dated 5th December 2000 and the Company's announcement issued on 7th November 2001 relating to the placing of existing shares and subscription for new shares.

CHARGE ON ASSETS

As at 30th June 2002, the Company's interests in certain subsidiaries and a loan of HK\$250,000,000 due from a subsidiary are pledged as security for the Company's banking facilities.

STAFF AND REMUNERATION POLICIES

As at 30th June 2002, the Group employed 8,183 staff member, of which 6,871 are workers on the Group's farmlands. Employee salaries are determined at a competitive level, other staff benefits include the Hong Kong Mandatory Provident Fund, insurance, education subsidies, training programmes and share option scheme.

Pursuant to an ordinary resolution passed at the Extraordinary General Meeting held by the Company on 19th June 2002, the then existing share option scheme adopted on 23rd November 2000 (the "2000 Scheme") was terminated and a new share option scheme (the "2002 Scheme") was approved and adopted. As at 30th June 2002, there was no outstanding option under either the 2000 Scheme or the 2002 Scheme.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

By way of a top-up placing of existing shares and subscription for new shares in the Company in November 2001, Kailey Investment Ltd. (“Kailey”) placed 320,000,000 existing shares in the Company at a placing price of HK\$2.3 per share with independent investors. Kailey at the same time subscribed for the same number of new shares at a subscription price of HK\$2.30 per share. The net proceeds from the subscription amounted to RMB755,341,000 (equivalent to HK\$711,645,000).

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. 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 with a final repayment date falling 36 months after the date of the Loan Agreement. As at 30th June 2002, the Company drew down US\$20,000,000 (equivalent to RMB165,173,000).

The Group’s sales are mainly transacted in Renminbi and the books are recorded in Renminbi.

As at 30th June 2002, the Group had bank and cash balances together with long-term bank deposits amounting to RMB996,923,000, of which RMB129,499,000 were denominated in Renminbi, the remaining RMB867,424,000 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 30th June 2002, the Group’s gearing ratio was 6.2%. This is based on the division of long term debt by total assets. Additionally, the Group’s current ratio was 7.7 times, reflecting the presence of sufficient financial resources.

As at 30th June 2002, the Group had outstanding capital commitments amounting to RMB805,420,000, of which, commitments of RMB214,146,000 are contracted but not provided for, the remaining commitments of RMB591,274,000 have been authorised but not contracted for, in respect of the purchase of fixed assets and research and development expenditure. As at 30th June 2002, the Group did not have any material contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the year.

AUDIT COMMITTEE

The Audit Committee comprises Mr. Wong Kong Chi and Professor Lin Shun Quan, the two independent non-executive Directors of the Company, 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 annual financial statements.

PUBLICATION OF FURTHER INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

All the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Kwok Ho
Chairman

Hong Kong, 29th October 2002

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