



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 30th June 2002.

ADOPTION OF CORPORATE CHINESE NAME

At the extraordinary general meeting of the Company held on 19th June 2002, special resolutions were passed to approve, among other things, the adoption of the Chinese name "超大現代農業(控股)有限公司" by the Company for registration in Hong Kong. The Certificate of Registration of Change of Name of Oversea Company was issued by the Registrar of Companies in Hong Kong on 27th June 2002.

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 31 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The results for the year ended are set out in the consolidated profit and loss account on page 28.

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. No interim dividend was declared for the six months ended 31st December 2001 (2000: Nil).

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

FIXED ASSETS

Details of the movements in the fixed assets of the Group are set out in note 13 to the financial statements.



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SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

Reserves of the Company at 30th June 2002 available for distribution amounted to RMB1,320,200,000 (2001: restated RMB738,281,000).

PRE-EMPTIVE RIGHTS

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

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.

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 67.

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. Wong Kong Chi*

Professor Lin Shun Quan*

* *Independent non-executive Directors*



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In accordance with Article 116 of the Company's Articles of Association, Madam Chiu Na Lai and Mr. Lee Yan will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Mr. Wong Kong Chi and Professor Lin Shun Quan are the independent non-executive Directors and were appointed for a two-year term expiring on 30th November 2002.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors of the Company has entered into a service contract with the Company. The respective terms of the service contract of the executive Directors of the Company 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

In all cases, the service agreements commenced on 1st December 2000, and will continue thereafter unless and until terminated by either party giving to the other not less than three months' notice in writing.

Saved as disclosed above, none of the Directors of the Company has a service contract with the Company which is not determinable within one year without payment of compensation other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 12 to 15.



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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30th June 2002, the interests of the Directors and Chief Executives of the Company in the equity and debt securities of the Company or any of its associated corporations as recorded in the register kept by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Company	Name of Director	Number of Shares			Total Shares
		Personal Interests	Family Interests	Corporate Interests	
The Company	Mr. Kwok Ho	–	–	1,046,000,000	1,046,000,000 (note 1)
The Company	Mr. Ip Chi Ming	–	–	52,000,000	52,000,000 (note 2)

Notes:

1. Held through Kailey Investment Ltd. in which Mr. Kwok Ho has 900 shares and his spouse, Madam Chiu Na Lai has 100 shares representing 90% 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.

Saved as disclosed above, none of the Directors, Chief Executives or their respective associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance and none of the Company's Directors, Chief Executives or their respective spouse, or children under 18 years of age were granted or had exercised any right to subscribe for shares or debentures of the Company or any other body corporate.



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DIRECTORS' INTERESTS IN CONTRACTS

Apart from the agreements disclosed under the heading "Connected Transactions" below, there were no other contract of significance in relation to the Group'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 were any other contracts 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.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Apart from as disclosed under the heading "Share Option Scheme" below, 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 (including their respective spouses or children under 18 years of age) or Chief Executive of the Company to have any right to subscribe for any securities of the Company or to acquire benefits by means of acquisition of shares in or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors is interested in any business which competes or is likely to compete, either directly or indirectly, with the Company's business.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30th June 2002, so far as is known to the Directors, the following persons (other than the Directors or Chief Executives of the Company whose interests are disclosed above) were recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance as being directly or indirectly interested in 10% or more of the nominal value of the issued share capital of the Company:

Name of Shareholder	Number of Shares	% of issued share capital
Kailey Investment Ltd. <i>(Note)</i>	1,046,000,000	54.48%
J.P. Morgan Chase & Co and its affiliated companies	193,921,370	10.10%

Note: Kailey Investment Ltd. is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 90% by Mr. Kwok Ho and as to 10% by Madam Chiu Na Lai. Mr. Kwok Ho is entitled to exercise 90% of the voting powers at general meetings of Kailey Investment Ltd.



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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 30 to the financial statements. The independent non-executive Directors of the Company had reviewed the above connected transactions set out in note 30 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 its 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 fertilisers, plant growth regulators and seeds by the Group from Fujian Chaoda Agricultural Produce Trading Company Limited¹ and Beijing Chaoda Yingjun Bio-Tech Company Limited², which constitute connected transactions and in respect of the waiver granted by the Stock Exchange, the aggregate value of the purchases of organic fertilisers, plant growth regulators and seeds from the connected parties do not exceed 55%, 3% and 5% respectively of the total purchase and 12%, 0.5% and 1% respectively 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.

Notes:

1. Mr. Kwok Ho holds a 65% equity interest in Fujian Chaoda Group Limited, a limited company incorporated in the People's Republic of China ("PRC"), which holds a 60% equity interest in Fujian Chaoda Agricultural Produce Trading Company Limited.
2. Beijing Chaoda Yingjun Bio-Tech Company Limited is a PRC limited liability company in which Mr. Kwok Ho holds 80% equity interest.



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SHARE OPTION SCHEME

At the extraordinary general meeting of the Company held on 19th June 2002, an ordinary resolution was passed to adopt a new share option scheme (the "New Scheme") in substitution for and to the exclusion of the share option scheme adopted by the Company on 23rd November 2000 (the "Old Scheme").

The New Scheme was adopted pursuant to a shareholders resolutions passed on 19th June 2002 for the primary purpose of providing incentives or rewards to selected participants, and will expire on 18th June 2012. Under the New 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 New 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 New 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.



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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.

During the year, no option was granted by the Company under the Old Scheme and the New Scheme.

RETIREMENT SCHEME ARRANGEMENT

Particulars of the Group's retirement scheme are set out in note 11 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 percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	47%
– five largest suppliers combined	63%
Sales	
– the largest customer	9%
– five largest customers combined	27%



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Mr. Kwok Ho holds a 65% equity interest in Fujian Chaoda Group Limited, a limited company incorporated in the PRC, which holds 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, owns 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

As at 29th October 2002, being the date of this report, 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 16th January 2002, the Company had 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 will be made available to the Company by way of a revolving loan facility during the 12-month period after the date of the Loan Agreement, and any principal amount of the Loan outstanding as at the date falling 12 months after the date of the Loan Agreement will automatically be converted into a term loan with a final repayment date falling 36 months after the date of the Loan Agreement. 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.

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.



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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 30th June 2002, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

SUBSEQUENT EVENTS

There is no significant event subsequent to the balance sheet date as at 30th June 2002.

AUDITORS

The financial statements for the year were audited by PricewaterhouseCoopers and Charles Chan, Ip & Fung CPA Ltd., the joint 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, 29th October 2002