

**CHAODA MODERN AGRICULTURE (HOLDINGS) LTD :
REMEMBER THE OLD ADAGE ABOUT THINGS
THAT GROW IN THE GROUND ?**

There used to be an investment adage that went along the lines that one should never buy into a company that relies on ‘stuff’ from a hole in the ground; and, one should never buy into a company that relies on ‘stuff’, grown in the ground.

Of course, some of the biggest fortunes in the world have been made from oil – the ‘stuff’ that comes from a hole in the ground – but one cannot say the same for the production of produce for human consumption – the ‘stuff’ that is grown in the ground.

The reasoning, with regard to this well-worn adage, was based on hard-nosed experience since one has seen numerous examples of oil wells, running dry, oil prices, dropping to uneconomic levels, which makes it not worth the while of producers to bring out the oil from holes in the ground, and tens of billions of dollars have been lost on trying to spud new wells, or merely to secure proven oil reserves.

(Ask Mr John Wu Ying Bun, former Chairman of Trafalgar Housing Ltd (now known as Seapower Resources International Ltd (Code 269)) as to what he thinks of oil and oil exploration because it was one of the ‘killers’ of this, former, publicly listed company when Mr Wu was Chairman).

As for farming on a large scale as a viable enterprise, the bones of publicly listed companies that have tried this ‘game’ litter trading floors of stock exchanges the world over.

(Look at what happened to C.P. Pokphand Company Ltd (Code: 43))

And, now, here comes Chaoda Modern Agriculture (Holdings) Ltd (Code: 682 – Main Board of The Stock Exchange of Hongkong Ltd) with its ‘game plan’ for growing fruits and vegetables and the rearing of a couple of hundred goats in the People’s Republic of China (PRC).

Chaoda Modern is unreal.

That one world, ‘unreal’, says it all.

While TARGET does not wish to suggest that that which is published in Chaoda Modern’s Prospectus of December 5 is not accurate, TARGET, nevertheless, finds it extremely difficult to accept the figures, at face value, contained in the Prospectus, as being anywhere near a reasonable and digestible situation (forgive the pun).

Here is TARGET’s reasoning.

The Statistics

Chaoda Modern Placed a total of 360 million, 10-cent shares at a Premium of not more than \$HK1.53 per share and, at the same time, Offered a total of 40 million, 10-cent shares at a Premium of not more than \$HK1.53 per share.

Chaoda Modern claims to be ‘an integrated and modern agricultural enterprise ... principally engaged in the agricultural produce and livestock businesses in the PRC ... one of the largest integrated and modern agricultural enterprises in the PRC ...’ (Page One of the Prospectus)

The Company's vegetable produce, other than a very small amount of rice, which the Company only started to produce in the past Year, includes:

1. White cabbage	2. Baby white cabbage	3. Shanghai cabbage	4. Chinese flowering cabbage	5. Broccoli	6. garlic
7. Chili peppers	8. Turnips	9. Bell peppers	10. Spinach	11. Bitter melon	12. Celery
13. Lettuce	14. Cucumbers	15. Carrots	16. Eggplant	17. Long beans	18. Spring Onions
19. Onions	20. Chinese kale	21. Italian lettuce	22. Taro	23. Winter melon	24. Green beans
25. Hairy beans	26. Peas	27. Pimientos	28. Leeks	29. Corn	30. Tomatoes

As for fruit, the Company grows, wholesales and retails:

1. Oranges	2. Laichees	3. Cherry tomatoes	4. Water melons	5. Yellow melons
6. Peaches	7. Pears	8. Plums	9. Grapefruit	10. Longan

In addition, Chaoda Modern rears a special type of South African goat, a Boer Goat, but the numbers, so far bred, have been not more than 350 head, in any one year.

This Company operates out of the PRC, exclusively, in Fujian, Hainan, Jiangsu, Shandong, Liaoning, Guangdong and Shanxi Provinces.

The Company's produce is sold as to about 60 percent in the PRC and about 40 percent overseas (which means the Hongkong Special Administrative Region (HKSAR)).

The following is a breakdown of the Company's Turnover for the past 39 months, in terms of products:

	1998 Financial Year ended June 30	1999 Financial Year ended June 30	2000 Financial Year ended June 30	Three Months to September 30, 2000
All Figures are Denominated in Renminbi *				
Agricultural Produce:				
1. Vegetables	11,707	60,934	128,820	116,657
2. Fruit	8,548	8,916	15,233	15,315
3. Rice	Nil	Nil	Nil	7,286
Ancillary Foods *	Nil	1,346	3,255	1,118
Livestock *	3,160	5,795	6,917	3,360
Total Turnover	23,416	76,991	154,225	143,736

* \$HK1 = renminbi 0.936

* All livestock is sold in the PRC

* Ancillary foodstuff includes cooking oils, dressings, canned and other non-staple foods, which are sold in the Company's dedicated retail sales outlets

Assuming a mid-point of the Offer Price Per Share, of \$HK1.515, Chaoda Modern expected to obtain about \$HK563 million, net of expenses, from its cash-raising exercise.

This money is intended for use as follows:

1. \$HK200 million to obtain new production bases in the PRC;
2. \$HK120 million to establish greenhouse facilities;
3. \$HK40 million to upgrade and to establish irrigation and infrastructural facilities;
4. \$HK40 million to be used for research and development;
5. \$HK40 million to be used to establish production facilities for processed and packaged vegetables and fruit;
6. \$HK20 million to be used for promotion and advertising in the PRC and overseas (which, still, means the HKSAR);
7. \$HK5 million to fund organic and green food certification;
8. \$HK5 million for the expansion of the Boer Goat breeding facilities; and;
9. \$HK53 million to be tipped into the General Working Capital Account.

All, so far, seems reasonable and quite believable.

But, then, things start to become a little hairy -- and more than a little unbelievable.

Since, for the past 39 months, this Company's Gross Profit Margin has never sunk below 70.60 percent, with the Net Profit Margin, having never been below 31.30 percent, during that 39-month period.

The table below is a breakdown of Trading Results of this Company since 1998:

	All Figures are Denominated in Renminbi			
	1998 Financial Year ended June 30	1999 Financial Year ended June 30	2000 Financial Year ended June 30	Three Months to September 30
Turnover	23,415	76,991	154,225	143,736
Cost of Sales	(6,877)	(20,885)	(42,583)	(36,894)
Gross Profit	16,538	56,106	111,642	106,842
Other Revenues*	Nil	14	181	235
Selling and Distributional Expenses	(1,506)	(4,826)	(10,952)	(10,738)
General and Administrative Expenses	(1,643)	(2,638)	(8,343)	(4,006)
Net Other Operating Expenses	Nil	(1)	(186)	(127)
Operating Profits	13,389	48,655	92,342	92,206
Finance Costs	Nil	Nil	Nil	(99)
Profit before Taxation	13,389	48,655	92,342	92,107
Taxation	(4,220)	(16,148)	(16,622)	(775)
Profit before Minority Interests	9,169	32,507	75,720	91,332
Minority Interests	(1,834)	(6,642)	(8,406)	Nil
Combined Profit for the Year	7,335	25,865	67,314	91,332
Dividends	Nil	Nil	20,000	Nil

* Other Revenues relate to interest income, mainly

About 80 percent of this Company's income is derived from the growing and sales of vegetables, with production and sales of fruit, being responsible for about 10 percent of total income.

The production of rice, which started only in the 2000 Financial Year, accounted for zero percent of income until the first 3 months of the 2001 Financial Year when, suddenly, ... [CLICK TO ORDER FULL ARTICLE](#)

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