

CHAIRMAN'S STATEMENT

I am pleased to present the first annual results of Chaoda Modern Agriculture (Holdings) Limited (the "Company") since the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited on 15th December 2000.

COMPANY PROFILE

The Group is principally engaged in the cultivation and sale of agricultural produce of high quality vegetables and fruits. It is also involved in the livestock business, primarily the breeding and sale of Boer goats, as well as in the ancillary food product retail business.

Currently, the Group produces more than 100 species of agricultural produce. Produce is marketed under the "CHAODA" brand in high consumption markets in China and overseas, such as Japan, South Korea and Hong Kong. The Group's cultivation processes comply with our national organic and green food production standards, assuring our high quality standards and enhancing its competitiveness in the international agricultural market. The Group is also a member of the International Federation of Organic Agriculture Movements (IFOAM) reinforcing our strong presence and quality recognition in the international organic agricultural industry.

In the 21st century, the demand for organic food is overwhelming around the world. The United States, Japan, Europe and even China, each of these countries is very concerned about the impact of agricultural produce on the ecological environment and the health of their nationals. This is particularly true in China which, with the world's largest population of 1.3 billion, is placing much emphasis on healthy food to ensure "Dining Safety".

As an institutionalized private organic green agricultural enterprise in China, the Group aims to provide high quality and healthy vegetables and fruits to the end-consumers and to health conscious people all over the world with the philosophy, "To take Green Road, To create Ecological Civilisation".

FINANCIAL PERFORMANCE

(Note: For comparison purpose, all the analysis below is based on the actual results of the Group for the year ended 30th June 2001 and the pro-forma results of the Group for the year ended 30th June 2000 on page 64.)

The Group's turnover and net profit attributable to shareholders for the year ended 30th June 2001 was approximately RMB725,546,000 and RMB440,821,000 respectively, representing a tremendous increase of 370% and 555% respectively, as compared with last year's. Overall gross margin grew to 75.2%, representing an increase of 2.8 percentage points as compared with last year's 72.4%. Net margin increased to 60.8% as compared with last year's 43.6%.



CHAODA MODERN AGRICULTURE

**ADVANCED RESEARCH AND
DEVELOPMENT TECHNOLOGY**

EXPANSION OF PRODUCTION BASES

As at 30th June 2001, the aggregate areas of production bases in provinces of China operated by the Group amounted to 62,429 mu (4,162 hectares), representing an increase of 292.8% as compared with 15,893 mu (1,060 hectares) as at 30th June 2000. During this year, the number of production bases increased from 5 to 25. All production bases are located in provinces with high economic growth, extending from the Group's first establishment in Fujian Province, to the coastal provinces from the south to the north, namely, Hainan, Guangdong, Jiangsu, Shandong and Liaoning, as well as the inland province as in Shaanxi Province. This extensive spread of production bases not only reduces any possible adverse effects caused by natural disasters to any particular region, it also enables the Group to provide "anti-seasonal" vegetables and fruits, thus increasing the gross margin of these produce.

In January 2001, the Group set up a 483 mu (32 hectares) pastureland for the breeding of Boer goats in Shandong Province. Successful research and development also resulted in embryo transfer technology for the institutional reproduction of Boer goats. This technique dramatically reduced breeding costs and shortened the breeding cycle. At the same time, the Group increased the number of its goats from 302 as at 30th June 2000 to 978 as at 30th June 2001.

MARKET EXPANSION

While expanding production bases, the Group's marketing strategy also focuses on penetrating into those high consumption cities surrounding these bases. As its "CHAODA" brand is well recognized as a producer of quality organic green vegetables and fruits, demand always exceeds supply for the Group's different agricultural produce.

The Board of Directors believes despite that the Group is at the leading position of the domestic organic green agricultural industry, with the huge agricultural produce market in China, we estimate that the Group's market share amounts to just 0.02% of the national market. Additionally, as China's agricultural industry is mainly fragmented with numerous small-scale individual farming entities, their operational efficiencies are hard to compete effectively with the Group's integrated and institutionalized large-scale "CHAODA" operating model. The Group therefore believes that there is ample room for the Group to develop in China's vegetables and fruits market.

RESEARCH AND DEVELOPMENT ACHIEVEMENTS

During the year under review, we continued our alliances with China's well-known agricultural universities and agri-technology institutes over a number of research and development projects to enhance agri-technology, introduce quality species from overseas and develop new species to international standards. Some of these projects, such as the development of aloe vera, non-polluted quality rice and embryo transfer technology for Boer goat reproduction, were completed and applied commercially for mass production. The Board of Directors expects those projects in the pipeline could bring in new sources of profit, thus enhancing overall profitability.

PROSPECTS

The Group institutionally operates the agricultural business through the unique "CHAODA" operating model providing integrated operations ranging from cultivation, research and development, logistic services to sales to end-consumers. These activities, apart from fulfilling the Chinese government's policy for the agricultural industry, also enables the Group to leverage many years' accumulated organic green cultivation techniques and experience to aggressively increase the number of quality production bases, progressively expand market share in the enormous domestic market and continue to enhance profitability through economies of scale. The lease of 20,000 mu farmland in Nanjing after the balance sheet date is a notable example. In addition, the Group also set up additional production bases in Zhejiang Province. At the same time, the well-known "CHAODA" brand has brought the Group many potential business partners. When business opportunities with high return arise, the Board of Directors will, after due consideration, select the projects for acquisition to enhance the Group's profitability. The recent acquisition of 49% equity interest in a citrus farm in Guangxi Province was the kick-off for future acquisition of such excellent projects. Based on the production bases added this year and as mentioned above, the Group has established itself as the flagship of the agricultural industry in China by setting up a production and sales network in high consumption province along the eastern coast of China.

China's imminent entry into the World Trade Organization in November this year will bring in vast business opportunities for the Group. As China and other countries in the world will mutually open up their markets, the labour-intensive operating model in China's vegetable and fruit agricultural industry, differing from the capital-intensive operating model in primary agricultural produce such as wheat, sweet corn, soya beans, etc, will enjoy the cost advantages in the international agricultural produce market. In addition, the "CHAODA" brand of organic green vegetables and fruits provide higher quality than ordinary vegetables and fruits. These factors will allow the Group to break the "Green Barrier" apart from the "Tariff Protection Policy" adopted or set out by those developed countries and enable the Group to expand into overseas markets rapidly with the brightest future.

APPRECIATION

On behalf of the Board of Directors, I would like to express our heartfelt gratitude to all our investors for their help and support since the Company's listing in December 2000. We are doing our best to ensure that "CHAODA" operating model excels in the market. As we undertake to continue to promote the "CHAODA" brand both in China and overseas, to maximize the returns for our shareholders.

Kwok Ho

Chairman

Hong Kong, 15th October 2001