



## 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

