



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 2004. This is the fourth 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 year under review, the performance of the vegetables and fruits market in the PRC was stable in general. In 2003, the area for vegetables cultivation throughout the PRC was approximately 270 million mu, with a total production at about 540 million tonnes, and the area for vegetables cultivation in the first half of 2004 maintained at a similar level as the previous year. The growth in vegetables consumption in the PRC has slackened, but the level of consumption was enhanced, with an emphasis on product quality. During the year, the more frequent occurrence of unusual detrimental weather caused a disruption in the balance between the seasonal demand and supply of vegetables, which in turn led to relatively large fluctuation in the seasonal prices. However, the overall price remained steady with a mild increase, while the export of vegetables and fruits in the PRC achieved a double-digit growth.

Many producers in the PRC are facing agricultural produce-related safety problems, such as poison rice, exceedance of pesticide residue on vegetables; while in the developed countries, much concern is placed on the issue of agricultural produce and health. Agricultural produce safety and agricultural produce and health clearly show us the different levels of requirement for agricultural produce quality in the market. Amidst such a mainstream environment in the PRC, Chaoda successfully set a right direction from the beginning: "Take Green Road, Create Ecological Civilisation". In these few years, we have established a comprehensive quality control system for agricultural produce, realizing unpolluted control of agricultural produce along the entire process from cultivation to consumption and creating a "Green and Organic Ecological Industrial Chain". In the World Brand Summit jointly organised by World Brand Laboratory and World Economic Forum in June 2004, Chaoda was awarded as one of the "China 500 Most Valuable Brands", reflecting the market recognition received by the brand of Chaoda.

BUSINESS OVERVIEW

Financial Performance

For the year ended 30 June 2004, the Group's turnover and profits attributable to shareholders were approximately RMB1,861,758,000 and RMB996,754,000 respectively, an increase of 25.3% and 37.5% as compared with last year.

Despite the unusual climatic conditions, the Group achieved satisfactory results, leveraging on its cross-regional balanced production and a sound marketing system. The increase in turnover was fuelled by the reinforced sales to overseas customers, and the sustained development of sales network targeting at cities with high purchasing power. Sales of crops increased from 597,000 tonnes last year to 711,900 tonnes this year. The excellent results for the year once again proved the strong ability in resisting risks and outstanding competitive advantage of the Group's operation model.



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BUSINESS OVERVIEW *(Continued)*

Production Base

The agricultural land areas held by the Group in the PRC increased from 155,315 mu (10,354 hectares) on 30 June 2003 to 181,027 mu (12,068 hectares) on 30 June 2004. There are two distinctive characteristics in the arrangement of agricultural land: 1. the production bases are basically located along the coastal areas, so as to capture the strong demand for green organic vegetables and fruits from developed cities on the east coast and oversea markets. The establishment of the majority of bases on the east coast helps to reduce costs by minimising long-distance transportation; 2. the production bases are located in dispersed areas, from Hainan in the south to Liaoning in the north and transverse the country from the coastal areas to Huangtu Gaoyuan in Shaanxi, allowing for year-round balanced supply and effective plans for minimising the risk of natural disasters.

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) accounted for 68.8% and 31.2% of the Group's total turnover respectively.

Prospects

Chao da continues to make progress on its chosen way, and being awarded as one of the most valuable brands is an encouragement for us to continue what we have been doing. Looking ahead, Chao da will persist in its tremendous effort to grow. In the No. 1 Document issued by the State Council of the PRC in the beginning of 2004, the importance of the "peasants, rural villages and agriculture industry" issue were recognised. Under favorable state policies, new competitors will be attracted. At the same time, rapid expansion of downstream market players like chain supermarkets will drive an integration of upstream agricultural produce suppliers. As such, Chao da will capitalise on such market opportunities and continues to proactively expand its enterprise scale, promotes its brand influence and strengthens the Group's leading position in the PRC's agricultural industry.

Short-term Objectives

In the past year, with the strategy of closely tracking the expansion of sales network by domestic and foreign chain supermarkets in the PRC, the Group has built up reasonable understanding towards their demand. In the plan for the coming year, the Group will conduct in-depth reform on its supply coordination, with the objective to achieve a more efficient and effective sales network, which would in turn become a new point of growth for the Group's profit.

Medium-term Objectives

The Group will perform enhancement works on the information digitalisation system which has already been launched, continuously improve our logistics and distribution system and reinforce the effective coordination between different sales channels in order to meet market demand.



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BUSINESS OVERVIEW *(Continued)*

Long-term Objectives

When the abovementioned short- and medium-term objectives are realised, we will move to the goal of becoming the model among suppliers of agricultural produce. Leveraging on our unique business philosophy and model, we hope to contribute to solving the “peasants, rural villages and agriculture industry” issue in the PRC and promoting the international reputation and image of the PRC’s agricultural produce.

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

19 October 2004