

# Chairman's Statement

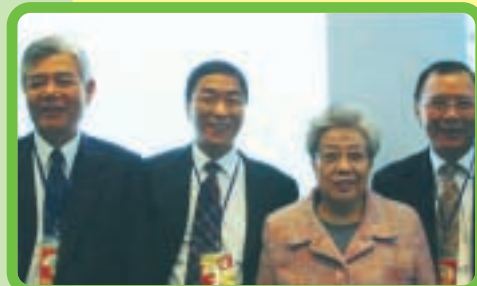


I am pleased to present the annual results of Chaoda Modern Agriculture (Holdings) Limited (the "Company" or "Chaoda") and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2005. This is the fifth annual results report since the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited on 15 December 2000.

## OVERVIEW

The performance of the vegetables and fruits market in the PRC was stable during the year under review. In 2004, the area for vegetables cultivation throughout the PRC was approximately 265 million mu, with a total production of about 549 million tonnes, up 1.7% from 2003. The growth in vegetables consumption in the PRC has slackened, but a new emphasis on product quality has made an impact on the market. During the first half of 2005, bad weather and rising prices for agricultural materials have led to higher costs for vegetable cultivation as well as operations. These in turn have led to a relatively large fluctuation in vegetables prices, as much as two to three times in the southeast coastal areas. During the year, the growth in vegetable exports has remained steady. According to

Customs statistics, PRC vegetable exports reached 6.02 million tonnes by December 2004, representing an increase of 8.92%. The value of exports in 2004 was US\$3.80 billion with a year-on-year increase of 23.7%. Over the past year, the government has promoted agricultural industrialization. New rules and regulations were promulgated by the government. Along with the trend of agricultural industrialization, Chaoda's model of "Corporate + Production Bases + Farming Workers" has become increasingly accepted by the government and industry participants. Thanks to the expansion in its production bases, Chaoda achieved faster growth than the market, keeping its leadership position in the vegetable industry. As Chaoda was able to maintain the high quality and year-round stable supply of its products, its export proportion was much higher than the industry average.



Brand building and the improvement of internal control are our key objectives for the year, so as to maintain long-term impetus to development. Our approach to brand building is multifaceted. It includes our efforts to maintain products quality, satisfy customers' needs and ensure product safety. At the same time, the Company has actively participated in a variety of industry tradeshow for enhancing its awareness, in particular the China International Agriculture Trade Fair, being the largest trade fair in the industry. The awareness of Chaoda brand name is enhancing year by year. The Company also held three influential trade shows for Taiwan agriculture products in Fuzhou, Shanghai and Beijing in May, July and October 2005, respectively. As a result, Chaoda's brand is further strengthened. In April 2005, the Company successfully passed the

bi-yearly evaluation and thus maintained the status as a State-level Dragon Head Agricultural Leading Enterprise. In September 2005, eight ministries including the Ministry of Agriculture strictly certified the Company as one of the "Top 100 Outstanding Dragon Head Agricultural Leading Enterprises". In August 2005, the World Brand Laboratory ranked Chaoda among "China's 500 Most Valuable Brands" for the second year in a row. Among Chinese conglomerates, Chaoda's ranking substantially improved from last year's 220 to 177. The Company has become the leading brand name in China's agricultural industry. These high-profile awards from both the government and private sector demonstrate the Group's outstanding corporate image and quality.

With regard to internal control, Chaoda commits to enhance shareholder's value and continues to improve the standard of corporate governance during the year. The engagement of Baker Tilly Hong Kong Limited, an international auditor, has proved Chaoda's commitment to high-quality auditing. For its new businesses and investments, the Company has created a rigorous evaluation and approval procedure, including the preparation of research reports. In respect of the business operation, Chaoda continues to hold a high standard for quality control. A strong centralized information system helps the Company to maximize its profit. Finally, our human resources department has set up a comprehensive system for recruitment, training, assessment and promotion of employees, with the aim to link employees' compensation with job performances.



# Chairman's Statement

## **BUSINESS REVIEW**

### **Financial Performance**

For the year ended 30 June 2005, the Group's turnover and profits attributable to shareholders were RMB2,238,454,000 and RMB1,311,003,000 respectively, representing an increase of 20% and 30% as compared with last year. The main growth driver was the Company's expansion in production bases. Sales of crops increased from 712,000 tonnes last year to 892,000 tonnes this year. The Group has continued to increase its sales to institutional clients, which accounted for an increase in total sales from 4% to 6%. Export sales were at the same level as last year, accounting for 30% of the Company's sales. The wholesale market remained the Company's major sales channel, representing 63% of total sales. During the year, Chaoda was able to offset the impact of bad weather and price fluctuations because of its nationwide production bases and extensive sales network. It demonstrates the Company's strong competitiveness and ability in risk management.

### **Production Base**

Agricultural land areas (excluding citrus farms owned by associates and mountain area) held by the Group in the PRC increased from 156,439 mu (10,429 hectares) on 30 June 2004 to 188,509 mu (12,567 hectares) on 30 June 2005. In this regard, the Company's production bases have different longitudes and latitudes and of different altitudes which are strategically located in 12 provinces and cities in China. In particular, this includes mainly Fujian in the south, Jiangsu and Hubei along the Yangtze River, Beijing, Tianjin and the northeast areas in the north, and the counter-seasonal bases located in the mountains. This leads to stable year-round supply of products and diversifies the risk of natural disasters effectively. The Company is also able to enjoy the strong demand for organic vegetables and fruits in local markets, avoid high transportation costs and benefit from the access to the best market information.

### **Other Operating Data**

For the year ended 30 June 2005, the other operating data relating to the Group's principal business of growing and sales of crops include the annual output per mu for vegetables of 6.11 tonnes and the yield per mu per harvest for vegetables of 1.93 tonnes as compared to the same period last year of 5.95 tonnes and 1.85 tonnes respectively. The average sales unit price per kg was RMB2.37 as compared to the same period last year of RMB2.38. There had not been any material change in other operating data during the year under review.

### **Prospects**

We believe that China's agricultural sector has a bright future. The central government is concerned with the slow growth of farmers' income and has given a top priority on issues related to "farmers, rural area and agricultural industry." The government is expected to maintain its favorable policies for the agricultural sector, demonstrated by the "No. 1 Document" issued in early 2004. The recent 11th Plenary Meeting of the Communist Party reinforced the government's commitment to the sector. Immature market infrastructure, limited technical support and low productivity are the main reasons for the gap between urban and rural areas. In addition to the favorable policies, the government is promoting the industrialization of the sector to improve productivity and distribution of agricultural products. Already a pioneer in agricultural industrialization, Chaoda will adhere to and improve its business model. We believe that our business model will prove competitive in the long run against other business models emerging in the trend of the agricultural industrialization. Looking forward, Chaoda will capitalize on the market opportunities and continue to grow. We will further solidify our leading position in China's agricultural industry through the following strategies.

### **Brand building — from corporate to product**

At the corporate level, Chaoda is highly recognized by government authorities and industry players, demonstrated by the various awards. The Company is now committed to make Chaoda a household name, well known to Chinese consumers. The Company will gradually adjust its product portfolio and production plan, in order to provide stable year-round supply of key products to institutional customers such as supermarkets, as well as to increase market shares. Meanwhile, the Company will broaden the usage of Chaoda trademarks on its products to increase the awareness of the Chaoda brand among consumers. We believe for the long run, a key competitiveness of Chaoda will be a well recognized brand by both industry experts and ordinary consumers. With a strong brand, the Company can reduce its reliance on sales channels and have a strong foundation for long term growth.

# Chairman's Statement

## **BUSINESS REVIEW** *(Continued)*

### **Expanding Sales Channels for Institutional Customers and the Overseas Market**

Through its vertically integrated business model, Chaoda has successfully established highly effective sales channels. Chaoda will continue to expand its sales to institutional clients, such as supermarket. We believe that supermarkets will account for an increasing market share in the future. In addition, China's accession to the World Trade Organization has created opportunities for agricultural companies, especially large producers with rigorous quality control standards, such as Chaoda. We will continue to develop export channels to complement the Company's domestic businesses.

### **Prudent Investment in New Businesses**

The Company's success in vegetables and fruits is based on its distinctive business model. The Company has enjoyed valuable support from the Central and local governments and has accumulated extensive knowledge of related industries leading to new opportunities for expansion and investments in downstream businesses such as food processing, logistics, livestock, etc. Prudent investment in new businesses will complement our core business, strengthen our competitiveness and diversify operational risks.

### **Policies and Performance on Community, Social, Ethical and Reputational Issues**

The Group endeavors to continually follow closely with the agriculture policy of the PRC, and will always be considerate for the rights and benefits of the peasants. Leveraging on the unique business philosophy and model of Chaoda, the peasants can be benefited through the enterprise behaviour in operating in the agricultural industry. Standardization of processes in modern agriculture helps to improve the planting technique of the peasants, to increase rural income and to help the stabilization of rural villages. To show our ongoing concern of the peasants, Chaoda have set January of every year as "The Month for the Peasants".

Furthermore, 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".

As Chaoda strives to become one of the world-class recognized brands, we consider ourselves responsible for raising rural incomes. We strive to become the role model of being the most competitive supplier of agricultural produce in China, so as to promote 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 efforts. 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 expanding export markets. As a member of Chaoda family, I would like to thank all the customers for their loyalty.

**Kwok Ho**  
*Chairman*

21 October 2005