



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 2006. This is the sixth annual results report since the Company’s listing on the Main Board of The Stock Exchange of Hong Kong Limited on 15 December 2000.

Review

Vegetable industry in the PRC has grown steadily in recent years. In many regions, vegetable cultivation has become an important factor for industry restructuring and the increase in farmers’ income. Performance of the vegetable and fruit market was stable during the year under review. As of December 2005, the area for vegetable cultivation throughout the PRC was 17.74 million hectares, representing an increase of 180,000 hectares or 1.0% from 2004. In 2005, total production of vegetables amounted to 563 million tonnes, up by 2.2% from 2004. According to the Customs statistics, PRC vegetable (including frozen vegetables, processed vegetables and dried vegetables) exports reached 6.8 million tonnes by December 2005, representing an increase of 13.0% from 2004. The value of exports was US\$4.48 billion with an increase of 18.1%.

Over the past year, the government launched various measures to tackle the “three issues related to agricultural industry, rural area and farmers”. Such measures included rescinding the agricultural tax, as well as relief from other charges, the increase of agricultural investments and infrastructure construction, in order to stimulate production and a sustained income increase of farmers. At the 5th session of the 16th Plenary Meeting of the PRC Communist Party held in October 2005, “The proposal on the 11th five-year plan for national economic and social development formulated by the PRC Communist Party” has been reviewed and passed, with an emphasis on the important task of “building a new socialist countryside”.

Leveraging on the favorable industry environment, Chaoda has actively participated in the agricultural industrialization in China. Its leadership in the industry has continued to strengthen together with its visibility and brand value. The achievement of Chaoda has become increasingly recognized by the government and the market. The numerous awards received by the Group demonstrate its outstanding corporate image. For instance, in September 2005, Chaoda was awarded as one of the “100 Outstanding Dragon Head Leading Enterprises in National Agricultural Industrialization” by the joint decision from Ministry of Agriculture, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce, People’s Bank of China, State Administration of Taxation, China Securities Regulatory Commission and ACFSMC (All China Federation of Supply and Marketing Cooperatives). In October 2006, Chaoda was selected as “2006 China’s Top 500 Competitive Large Enterprise Group” by the National Bureau of Statistics, on the basis of quantitative reference designed for assessing the competitiveness of enterprises. In June 2006, the World Brand Laboratory ranked Chaoda among “China’s 500 Most Valuable Brands” for the third year in a row. With an estimated brand value of RMB4.625 billion, Chaoda’s ranking substantially improved to 124. Chaoda remained the leading brand in China’s agricultural industry. The Group also received other important awards, such as:

- “Chinese Brand of The Year 2005 (No. 1 in the Agriculture Category)” — World Brand Laboratory
- “Asia’s 500 Most Influential Brand of The Year 2006” — World Brand Laboratory
- “2006 China’s Top 1,000 Enterprise Group” — National Bureau of Statistics
- “2005 Fujian Provincial Top 10 Leading Enterprise in Agricultural Industrialization” — Fujian Provincial Committee on Agricultural Industrialization
- “2006-2007 Famous Export Brand Sponsored by Fujian Provincial Foreign Trade and Economic Cooperation Department” — Fujian Provincial Foreign Trade and Economic Cooperation Department
- “China’s Famous Brand of Agricultural Products” — Ministry of Agriculture



Business Review

Financial Performance

For the year ended 30 June 2006, the Group's turnover and profits attributable to shareholders were approximately RMB2,797,707,000 and RMB1,358,235,000 respectively, representing an increase of 25% and 5% as compared with last year. The main growth driver was the expansion of production bases. Chaoda achieved impressive growth and financial results. Sales of crops has increased in volume from 892,000 tonnes last year to 1,118,000 tonnes this year. The Group has continued its sales to wholesale market, institutional clients, retail and export sales, accounting for 63%, 6%, 1% and 30% of the Group's sales respectively.

Production Base

Total production base area for crops held by the Group in the PRC increased from 188,509 mu (12,567 hectares) on 30 June 2005 to 278,056 mu (18,537 hectares) on 30 June 2006. During the year, key bases for development included, among others, Changchun base at Jilin province in northeastern China and Zhangbei base at Hebei province.

Other Operating Data

For the year ended 30 June 2006, the other operating data relating to the Group's principal business of growing and sales of crops include annual output per mu of 5.54 tonnes and the yield per mu per harvest of 1.87 tonnes as compared with last year of 6.11 tonnes and 1.93 tonnes respectively. The average selling price per kg was RMB2.41 as compared with last year of RMB2.37. There had not been any material change in other operating data during the year.

Prospects

"Building a new socialist countryside" is an important task of the PRC government in the future. The governments at all levels will make great efforts to follow this strategy. What is especially important is the promulgation of the "Opinion on encouraging the industrialized leading agricultural enterprises to participate in building a new countryside" by the Ministry of Agriculture on 15 August 2006. This opinion suggests the importance of the industrialized leading agricultural enterprises during this program. It also requests government departments at all levels to provide services and supports and create a favorable environment for the enterprises. As a leading farming company, Chaoda will continue to develop the model of "company + bases + farmers", apply scientific techniques of cultivation, enhance production efficiency, increase the income of farmers, and facilitate the progress of industrialization, scale production and standardization.

The government will further strengthen and standardize the quality and safety measures for agricultural products. The "Law of the People's Republic of China on Quality and Safety of Agricultural Products" has been passed at the 21st session of the Standing Committee of the 10th National People's Congress held in April 2006 and will come into effect on 1 November 2006. This law has established a series of regulatory systems for the government administration, dissemination of information, production record, packaging and labeling, entry requirements for quality and safety, monitoring and inspection, reporting on incidents and recourse against the quality and safety of agricultural products, etc. The implementation of this law will provide a favorable legal, market and social environments for the production and development of green, safe, nutritious and healthy products.

Looking forward, we believe that the operating environment for agricultural enterprises will continually improve. Agricultural industry is entering a phase of consolidation and rapid growth. In particular, with the strong support from the government, modernized agricultural enterprises will take the leadership role during the process of consolidation. As a state-level industrialized leading agricultural enterprise, Chaoda will capitalize on the market opportunity and continue to grow. The Group will focus on its core vegetable and fruit business and prudently develop other businesses such as tea, forestry, livestock, food processing and trading. The Group will mainly complete the following tasks.

Construction of Production Bases

The production bases of the Group have different longitudes and latitudes and are of different altitudes. They are strategically located in 14 provinces and cities in China. The main regions include Beijing-Tianjin-Hebei, the Northeast area, Yangtze River area and the South area (mainly Fujian) with other supplementary counter-seasonal bases. The distribution of bases diversifies the risks of natural disasters and climate changes effectively, and facilitates a stable year-round supply of products. The future expansion will mainly be in these regions with the addition of supplementary bases in other areas. Due to the funding required for the establishment of production bases, the Group will plan its capital expenditure appropriately in order to keep expansion under strict budgetary control.

Strengthening Quality Control

Quality control is very important for the domestic and export businesses of Chaoda. The quality of agricultural products and the safety of food are growing concerns of consumers worldwide, evidenced by China's Law on Quality and Safety of Agricultural Products mentioned above and the "positive list system" imposed by Japan against imported products. As the standardization of China's agriculture industry progresses, its agriculture products are becoming more competitive globally. From the beginning, Chaoda has adopted an ecological and green cultivation methodology with high quality as its core mission. To satisfy the demand of domestic and overseas customers, we will keep on strengthening and improving the quality control system. We believe China's vegetable industry is competitive internationally. The export business of Chaoda will develop steadily as before.

Intensifying Brand Building

Brand building is a long-term strategy of the Group and will continue to be intensified. Along with its expansion and development, Chaoda has become highly recognized by the industry, demonstrated by the various awards, and has built up a strong corporate brand. We believe that the demand for branded agricultural products will grow in China and the world. Branded suppliers are increasingly welcomed by consumers. The Group will actively work with its clients such as wholesalers and supermarkets to develop consumer brands, so as to increase the awareness of the Chaoda brand among all consumers. Quality control is key to maintaining and strengthening our brand. With the support of our rigorous quality control system, we believe that the brand value of Chaoda will further enhance and become an important competitive advantage of the Group for the long run.

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

The Group will continue to follow closely the strategic development plan on agriculture in China. Chaoda's unique business philosophy and model are beneficial to farmers. Industrialization of the production processes helps to improve the planting techniques of farmers, increase their income and improve social stability in rural areas. To show our ongoing concern for farmers, Chaoda has set January of every year as "The Month of Farmers".

People all over the world have become increasingly concerned about the safety and quality problems of agricultural products such as pesticide residue on vegetables. Chaoda has successfully followed a right strategy from the beginning: "Take Green Road, Create Ecological Civilisation". We have established a comprehensive quality control system for agricultural produce, built an unpolluted supplying process from cultivation to consumption and created an "Ecological Industrial Chain".

In addition to the operational compliance with the principles on nature and environmental protection, the Group is devoted to environmental protection in its offices, so as to maintain the harmony between human beings, nature and society, and achieve the goal of harmonious development. Specific examples include despatching notices by electronic mails, using recycled toner cartridges and using certified recycled paper to prepare the Company's annual reports etc..

Kwok Ho
Chairman

20 October 2006