



## Chairman's Statement

I am pleased to present to the shareholders the annual results of China Agrotech Holdings Limited (“China Agrotech” or the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 30 June 2005.

### **TURNOVER AND PROFITS**

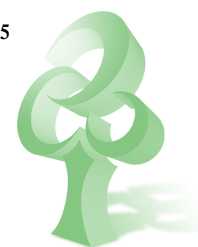
For the year ended 30 June 2005, the consolidated turnover of the Group was approximately HK\$1,640,708,000 (2004: HK\$822,027,000), representing a growth of approximately 100%; and the net profit attributable to shareholders was approximately HK\$21,511,000 (2004: HK\$14,882,000), representing a growth of approximately 45%.

### **BUSINESS REVIEW**

Driven by the hard working of all our staff, sales of China Agrotech for the year exceeded HK\$1 billion and reached HK\$1.6 billion, all segments showing encouraging growth momentum. After three years of exploring from 1999 to 2001, the three years from 2002 to 2004 marked a phase of successful transformation for the Group, fully preparing China Agrotech to establish itself as a leading distributor and retailer in the agricultural resources industry in the PRC.

It took us just over four years to develop from a company with a turnover of a few ten millions to a company with a turnover of HK\$1.6 billion. No doubt this is the outcome of the Group's effective utilisation of capital, successfully generating favourable effects to the operations, but it is also the result of precise corporate operation approach and strategy adjustments aiming the right direction as well as its outstanding corporate operational capability. Within a period of two to three years, China Agrotech has established a comprehensive supply chain covering specific provinces or regions, as enhanced from a supply chain covering individual agricultural resources distribution points.

During the financial year under review, the Group's agricultural resources circulation (distribution and retail) business achieved further growth. Market coverage and penetration both recorded remarkable growth and the Group's brand name has also been strengthened. Moreover, the Group's commencement of international business also contributed to the growth of the Group's turnover in the current year. However, the implementation of a new nationwide policy by the Ministry of Agriculture in early 2004 for testing of certain categories of agricultural resources products in respect of their toxicity and environmental friendliness has caused a decrease in the operating profit of the Group's manufacturing business in the current year. Following the completion of the product testing and the granting of the relevant certificates by the government authorities concerned, plant growth regulators (“PGR”) and BtA were re-launched in the market in November 2004. In the coming year, the Group will from time to time adjust its strategies in respect of product manufacturing and marketing according to the changes in policies regarding the agriculture industry. Given the support of the Group's circulation network, it is expected that the manufacturing segment will achieve growth together with the agricultural resources circulation business.



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In respect of the agricultural resources circulation business, the Group maintained its continuing business expansion and growth in turnover through the implementation of selective acquisition strategy and strengthening of market position by securing more exclusive products distribution rights from large manufacturers. Hence, the turnover of trading business increased by 86% to HK\$1,177 million for the current financial year. However, the gross profit margin of the agricultural resources trading business is only approximately 5%, nevertheless, under the efforts committed by the Group and the realisation of economies of scale, the circulation (trading) business finally achieved operating profits of approximately HK\$4,644,000 in the current year. The Group believes the value-added and synergies created by the brandname of the Group's own agricultural resources products and the provision of plant protection technical services and the support of its self-developed computer system (which comprises a supply-chain management system, a centralised finance system and a cash flow management platform) will facilitate a more strengthened and mature circulation business and is expected to bring remarkable profit to the Group in the near future.

Facing challenges and opportunities presented by the WTO, China Agrotech commenced its international trading business in mid 2004, and products exported were mainly non-agricultural resources products. Currently, trading relationship has been established with a number of countries. During the year under review, the product exports realised an total amount of approximately HK\$355,667,000, establishing a solid foundation for China Agrotech's agricultural resources business to enter the international market in the future.

### **CORPORATE STRATEGIES AND PROSPECTS**

As a modern agricultural resources enterprise committed to achieving triple win in terms of production, circulation and agricultural producer, China Agrotech has established itself as a leading large agricultural resource chain group in the agricultural resources industry by integrating upstream quality product resources, core end-user network and excellent industry management and technical professionals.

With circulation as its core, China Agrotech focuses on the fertilisers and pesticides end-user markets, and will continue to centralise purchases so as to obtain more market competitive pricing from the suppliers. It will also implement scientific logistics and capital management, enhance customers' recognition towards the Group's brandname and improve its brandname awareness, as well as establish alliances with upstream reputable production enterprises to lower operating costs and enhance its sales network. Together with the added values and complement to the Group's core circulation business from products of its own brandname and plant protection services, China Agrotech will be able to leverage on its leading edges in terms of its own brand name, capital and management to maximise value of its resources translating into the unique core competitiveness of China Agrotech.



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The management of China Agrotech emphasises on risk controls and scientific argumentation. China Agrotech has been the pioneer in the industry to adopt supply chain management system and cash management system to optimize its management platform. The system effectively control fund management by reducing finance costs, achieving effective utilization of capital, facilitating credit management and better fund control of subsidiaries. Controls on capital allocation, capital enquiries and etc. not only ensure timely and accurate understanding of fund utilization amongst parent company and its subsidiaries, but also enables free transfer of resources to different divisions to resolve any shortage problems, realising consolidation of logistics, cash flow and financial management information.

Looking forward, the Group will focus on the coordination amongst services provided in various transportation hubs, such as harbours, ports and railway stations, so as to enhance the actual operating efficiency of its circulation network. The Group will also open up overseas sales channels for its agricultural resources products, working towards the goal of bringing China agricultural produces into the international market and transforming the Group into a leading agricultural resources distributor and retailer in the PRC.

### APPRECIATION

I would like to take this opportunity to express my gratitude to all members of the Board, the senior management and all staff for their dedications and efforts over the years. In addition, I would also like to express, on behalf of the Board, our most sincere thanks to all of our customers, suppliers, scientific research units and business partners for their continuous support.

**Wu Shaoning**

*Chairman*

Hong Kong, 25 October 2005