



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 2004.

TURNOVER AND PROFITS

For the year ended 30 June 2004, the consolidated turnover of the Group was approximately HK\$822,027,000 (2003: HK\$664,092,000), representing a growth of approximately 24%; and the audited profit attributable to shareholders was approximately HK\$14,882,000 (2003: HK\$27,149,000), representing a decrease of approximately 45%.

BUSINESS REVIEW

During the financial year under review, the Group's agricultural resources distribution business achieved further growth from expansion of market coverage and penetration as well as strengthening of the Group's brand name. Besides, the start of mass production of BtA (a bio-pesticide) and the commencement of operation of the new production bases in Hunan and Hubei provinces also contributed to the growth of the Group's turnover in the current year. However, the production of plant growth regulators ("PGR") and BtA was suspended since January 2004 due to the implementation of a new nation-wide policy by the Ministry of Agriculture for testing of certain categories of agricultural resources products in respect of their toxicity and for environmental purpose. Hence, the operating profit of the Group's manufacturing business decreased significantly. It is expected that PGR and BtA will re-launch in the market by the end of 2004, upon the completion of the product testing and the granting of the relevant certificates by the government authorities concerned.

In respect of the agriculture resources trading business, the Group maintained continued growth in turnover from expansion through acquisitions and strengthening of market position by securing more exclusive products distribution rights of large manufactures. Hence, the turnover of trading business increased by 24% to HK\$632 million for the current financial year. However, as the agricultural resources trading business is a quantity-driven business with a relatively lower gross profit margin of approximately 4%; and due to the price inflation of raw materials and the government control on the inflation of market price of agricultural resources during the year which affected the gross profit margin on trading, we have yet to achieve further increase in revenue from trading in order to cover the amortisation of computer system development costs and the goodwill from business acquisitions; as well as advertising and promotion expenditure, and thereafter contribute a remarkable profit. The Group believes the synergetic effect from the provision of plant protection technical services and the support of its self-developed computer system (which comprises of a supply-chain management system, a centralized finance system and a cash flow management platform) will render the trading business more strengthened and mature and bring remarkable profit to the Group in the near future.

During the year, the Group continued to make investments in new agricultural resources products developed by different agricultural research institutes. Upon completion of compliance with government regulations in respect of production and sale of the agricultural resources products, the Group will select suitable manufactures and put the scientific research outcomes into commercial production.



CORPORATE STRATEGIES AND PROSPECTS

With China's accession to the WTO, China's agricultural resources industry is seeing a great revolution and ever-changing competition. The agricultural resources industry has experienced a massive restructuring from unification to disintegration and then coalition, from seller's market to buyer's market and then a win-win situation between the seller and the buyer, and from domestic competition to the introduction of international competition into the domestic market. Those involved in the transformation of the agricultural resources industry share a common understanding that the coalition of agricultural resources businesses means the revival of the industry.

China Agrotech Holdings Limited is a rising green agriculture business in this era with the coexistence of opportunities and challenges. As a progressive power in the modern agricultural resources industry, we are committed to achieving a win-win situation among the production and the circulation sectors as well as the farmer. We have maintained a stable and solid development with our daring spirit and talent. By adhering to a tenet of "Agriculture-oriented, with science and technology coming first", upholding the principle of optimal distribution of resources and introducing advanced business chain operation mode and modern management method, we have rapidly developed into a leading brand name in China's agricultural resources industry.

We have kept on improving through learning and innovation and have achieved an optimized distribution of resources by way of integration so as to upgrade our competitiveness. In face of the ever-changing domestic and international market and on the basis of our corporate culture of "learning, innovation and integration", we have been devoted to train an outstanding team of staff, which is dedicated and professional. We aim to become a specialized and devoted agricultural resources business, which is an integration of production, circulation, and technical service, and make China Agrotech a competitive brand name in China's agricultural resources industry.

We always believe that the players in the same industry are like friends and only cooperation can ensure a win-win situation. We are willing to join hands with other outstanding agricultural resources businesses in the country to help develop China's agricultural industry and ensure the competitiveness of China's agriculture produce in the international market.

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 2004