

China Agrotech Holdings Limited

浩倫農業科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)



*Interim  
Report*

**1999 -  
2000**



## INTERIM RESULTS HIGHLIGHTS

China Agrotech Holdings Limited prides itself in its mission to apply advanced technology to assist in improving the quality of the PRC's agricultural produce and thus higher productivity and efficiency can be achieved. The Company is currently the ONLY producer of regulatory-type plant growth regulator ("PGR") in the PRC with substantial potential for development and impressive growth in sales and profit in the past few years. The Company has achieved a turnover of approximately HK\$30,835,000 for the six months ended 31st December, 1999, with profit attributable to shareholders of approximately HK\$11,964,000, an exponential increase of 164.7% and 228.8% as compared to the same period of the previous financial year. Looking ahead, the Company will continue its efforts in technological research and development of PGR in order to achieve better results in the future.

## QUARTERLY RESULTS (UNAUDITED)

The Directors are pleased to announce that the unaudited consolidated results of China Agrotech Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the three months and six months ended 31st December, 1999, together with comparative figures for the corresponding periods in 1998, as follows:

	Notes	For the three months ended 31st December,		For the six months ended 31st December,	
		1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover	a	18,749	6,386	30,835	11,649
Cost of sales		(4,037)	(1,765)	(6,763)	(3,252)
Gross profit		14,712	4,621	24,072	8,397
Selling, general and administrative expenses		(6,527)	(1,668)	(9,838)	(2,589)
Interest income (expenses), net		342	—	343	—
Profit before taxation		8,527	2,953	14,577	5,808
Taxation	b	(250)	—	(466)	—
Profit after taxation but before minority interests		8,277	2,953	14,111	5,808
Minority interests		(1,322)	(1,104)	(2,147)	(2,169)
Profit attributable to shareholders		<u>6,955</u>	<u>1,849</u>	<u>11,964</u>	<u>3,639</u>
Earnings per share	c				
— Basic		<u>3.39 cents</u>	<u>1.06 cents</u>	<u>6.29 cents</u>	<u>2.08 cents</u>



*Notes:*

- a. Turnover comprised the net invoiced value (excluding value-added tax) of merchandise sold after allowances for returns and discounts.
- b. The Company is exempted from taxation in the Cayman Islands until 2019. No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong. Taxation represents Mainland China Enterprise Income Tax provided by a subsidiary at a rate of 7.5% per annum.
- c. Earnings per share

The calculations of basic earnings per share for the three months and six months ended 31st December, 1999 were based on the unaudited consolidated profit attributable to shareholders of approximately HK\$6,955,000 for the three months ended 31st December, 1999 and HK\$11,964,000 for the six months ended 31st December, 1999 and on the weighted average number of approximately 205,163,000 shares in issue during the three months ended 31st December, 1999 and 190,082,000 shares in issue during the six months ended 31st December, 1999.

The calculations of earnings per share for the three months and six months ended 31st December, 1998 were based on the unaudited combined profit attributable to shareholders of HK\$1,849,000 for the three months ended 31st December, 1998 and HK\$3,639,000 for the six months ended 31st December, 1998 and on the 175,000,000 shares in issue and issuable pursuant to a capitalisation issue in connection with the Company's share offering in November 1999.

Diluted earnings per share was not presented because there were no dilutive potential ordinary shares in existence during the periods.

- d. Comparative figures

The Company became the holding company of the other companies comprising the Group on 11th November, 1999. The Group's consolidated results for the three and six months ended 31st December, 1998 have been prepared on the basis of merger accounting as if the Company had been the holding company of the other companies comprising the Group throughout the six and three months ended 31st December, 1998.

## INTERIM DIVIDEND

The Directors do not recommend the payment of interim dividend for the six months ended 31st December, 1999.

## BUSINESS OVERVIEW AND OUTLOOK

The Directors are pleased to announce the Group's first interim results since its listing on the GEM. For the six months ended 31st December, 1999, the Company recorded a turnover of approximately HK\$30,835,000, representing a 164.7% increase as compared to the same period in the previous financial year, of which PGR for vegetables accounted for approximately 40.7% and PGR for fruits accounted for approximately 59.3%. As the Group is the only manufacturer of regulatory-type PGR in the PRC, the Group has been enjoying high gross profit margin which increased to approximately 78.1% from approximately 72.1% for the same period in the previous financial year.

The Group has been actively establishing its sales network to promote the popularity of its products in the PRC market. At the same time, the Group has also managed to effectively monitor and control the production costs, which contributed to the improvement of its gross profit margin.

The Group has been communicating and exchanging ideas with its industry counterparts, as an important factor in raising the popularity of its products and thus expanding its market share. In December 1999, Mr. Wu Shaoning, Chairman of the Company, has been nominated the director of 中國農作物化控專業委員會 (the Professional Crop Chemical Control Committee of China), Professor He Zhongpei, non-Executive Director of the Company as the assistant director of the said committee, while Mr. Yang Zhuoya, Executive Director of the Company as the standing director of 福建省土壤肥料科學會 (Soil and Fertilizer Academy of Fujian Province) for year 2000.



## Plans and prospects

With the PRC entering the World Trade Organisation, it is expected that foreign agricultural produce will be imported into the PRC in mass scale. It will be imperative for PRC's agricultural producers to enhance the quality of output in order to cope with such competition. Since the Group is renowned for its quality products, advanced technology and excellent marketing strategies, the Directors believe that such urge for improvement in the quality of agricultural produce provides the Group with greater market potential.

As stated in its prospectus dated 16th November, 1999, the Group is expected to augment its production capacity to 1,680 tonnes by June 2000, with 250 tonnes for PGR for vegetables, 390 tonnes for PGR for fruits, 100 tonnes for PGR for tobacco, and 200 tonnes for PGR for rice, respectively.

Moving into year 2000, the Group is ready to engage upon collaborative efforts with organizations such as the Crop Biochemical Control Research Centre of the China Agricultural University, and has been making considerable progress in the research and development of PGRs for rice and tobacco, the development of which is at the final stage. The Group plans to launch the two new products in March 2000.

In terms of research and development for new products, the Group has continuously carried out the studies for PGRs for corn, oil seeds, fungi and flowers.

The Group is optimistic of its future prospects, in achieving its objective to remain a market leader in the PRC's PGR industry. With the success of PGRs for vegetables and fruits, the Group is also confident in diversifying its product base by developing new specific-purpose PGRs.

## Comparison of business objectives with actual business progress

*According to the business objectives as stated in the prospectus dated 16th November, 1999*

PGRs for rice and tobacco are in their final stages of development and commercial production of the above products is expected to commence in March 2000.

In September 1999, the Group signed a non-binding letter of intent with Fuzhou Cangshan Hi-Tech Science Park Management Office for the acquisition of the land use rights to a vacant site of approximately 20,000 sq.m. at Fuzhou Cangshan Hi-Tech Science Park in Fuzhou, Fujian Province with the consideration payable being RMB8.4 million.

*Actual business progress/ change in business objective (if any)*

Development is at the final stage and expected date of production remains unchanged.

Having considered the development costs and the scale of future operations, the Group has not proceeded with the original letter of intent and no deposit has been paid or forfeited in respect of it. Instead, the Group has signed a contract with 惠安城南中心工業區開發發展有限公司 (HuiAn Chengnan Central Industrial District Development Co., Ltd.) for the acquisition of the land use rights to another vacant site of approximately 60,000 sq.m. at HuiAn Economic Development District, Fujian Province at a total consideration of RMB9.0 million, of which approximately RMB6.0 million has been paid and was financed from the net proceeds of the share offer in November 1999. The remaining RMB3.0 million will be paid right after the granting of land use rights certificate by the local government, and will also be financed from the net proceeds.



A new production facility comprising a production plant, a warehouse and an office building will be established on the aforesaid Fuzhou site. The Group expects construction to commence in December 1999 and be completed by February 2000. The acquisition cost of the Fuzhou site and the construction cost of the new production facility on such site are estimated to be approximately HK\$15 million.

Four production lines, one for PGR for fruits, one for PGR for tobacco and two for PGR for rice, will be acquired with total estimated cost of establishment of approximately HK\$20 million. The four new production lines are expected to commence commercial production in March 2000. The Group's total annual production capacity will then be increased from 560 tonnes to 1,680 tonnes of PGRs.

The Group plans to employ approximately 100 additional sales staff and incur approximately HK\$7 million for its hiring of additional sales staff and advertising and promotion activities particularly in relation to the two new PGRs for tobacco and rice to be launched during the second half of the year ending 30th June, 2000.

The total cost for research and development of four new PGRs for fungi, flowers, corn and oil seeds are estimated to be approximately HK\$10 million, out of which about HK\$6 million is expected to be incurred during the year ending 30th June, 2001. The Group has not set aside funds for research and development for the year ending 30th June, 2000.

The new production facility will be accordingly established on the HuiAn site. The construction work has already commenced and the expected date of completion remains unchanged. The total estimated costs of acquisition of land and construction costs of the new production facility remain unchanged. Apart from the contract for the acquisition of land as mentioned above, the Group has also signed a contract for plant foundation construction work with contract sum amounting to RMB828,000, which has been fully paid and was financed from the net proceeds of the share offer.

The Group has signed contracts with suppliers of different parts of the four production lines with total contract sums amounting to RMB12,580,000 of which RMB6,650,000 has been paid and was financed from the net proceeds of the share offer. The construction and setting up of certain parts, which are mainly the reactors and some auxiliary facilities of the four production lines has been completed. There are still some contracts yet to be signed for other parts of the four production lines. After the complete installation of the four new production lines, the Group's total annual production capacity will be increased from 560 tonnes to 1,680 tonnes of PGRs.

The Group has already hired an additional 40 sales staff. In addition, the Group has signed a contract with a business advertising and promotion services company for nationwide advertising and promotion activities in relation to the marketing of the two new PGRs for tobacco and rice in the PRC, with the contract sum amounting to RMB7.6 million, of which RMB3.8 million has been paid and was financed from the net proceeds of the share offer. The Group is also in the process of establishing an internet website for product promotion, the cost of which is included in the contract sum of RMB7.6 million aforesaid.

The Group has started cooperation with three different research centres for such research and development works, including testing and conducting field experiment, with total contract sums amounting to RMB9,856,000. Since initial research studies have been started, in order to ensure the targeted timing of launching the new products can be met, the Group has made interim payments of RMB3,000,000 in total, which was financed from the net proceeds of the share offer, to the research centres so as to speed up their work.



## DIRECTORS' INTERESTS

As at 31st December, 1999, the interests of the Directors in the securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept by the Company under section 29 of the SDI Ordinance were as follows:

### China Agrotech Holdings Limited

Name of director	Number of Shares				Total	Percentage of interests
	Personal interests	Family interests	Corporate interests	Other interests		
Wu Shaoning	140,000,000	Nil	Nil	Nil	140,000,000	56%
Tung Fai	28,000,000	Nil	Nil	Nil	28,000,000	11.2%

The Company did not grant any right to subscribe for equity or debt securities of the Company to any director or chief executive of the Company or to the spouse or children under 18 years of age of any such director or chief executive as at 31st December, 1999.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 1999, except the two directors, who were also the management shareholders, of the Company as disclosed in the Directors' Interests section of this interim results report, no person was beneficially interested in 10% or more of the nominal value of the issued share capital of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance.

Save as disclosed above, the Company had not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 1999.

## SPONSOR'S INTERESTS

As updated and notified by ICEA Capital Limited, the Sponsor, as at 31st December, 1999: —

1. neither the Sponsor nor its associates have or may, as a result of the listing or transaction, have any interest in any class of securities of the Company or any other company in the Company's group (including options or rights to subscribe such securities);
2. no director or employee of the Sponsor who is involved in providing advice to the Company has or may, as a result of the listing or transaction, have any interest in any class of securities of the Company or any other company in the Company's group (including options or rights to subscribe such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed by any such director or employee pursuant to an offer by way of public subscription made by the Company);
3. neither the Sponsor nor its associates expect to have accrued any material benefit as a result of the successful outcome of the listing or transaction, including by way of example, the repayment of material outstanding indebtedness and payment of any underwriting commissions or success fees; and
4. no director or employee of the Sponsor has a directorship in the Company, or any other company in the Company's group.





## **PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board  
**Wu Shaoning**  
*Chairman*

Hong Kong, 26th January, 2000

The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM”) has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of The Stock Exchange of Hong Kong Limited and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by The Stock Exchange of Hong Kong Limited. Listed companies are not generally required to issue paid interim results reports in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

*This interim results report, for which the directors of Cbina Agrotech Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Cbina Agrotech Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— 1. the information contained in this interim results report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this interim results report misleading; and 3. all opinions expressed in this interim results report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*