



# CHINA AGROTECH HOLDINGS LIMITED

浩倫農業科技集團有限公司\*

*(incorporated in the Cayman Islands with limited liability)*

## Annual Results Announcement For the year ended 30th June, 2001

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*This announcement, for which the directors of China 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 China 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 announcement 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 announcement misleading; and 3. all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## RESULTS HIGHLIGHTS

- China Agrotech Holdings Limited prides itself in its mission to apply advanced technology with a view to improve the quality of agricultural produce in Mainland China and to achieve higher productivity and efficiency. The Group is currently the ONLY producer of regulatory-type plant growth regulator (“PGR”) in Mainland China with substantial potential for growth and development.
- On the other hand, the Group develops agricultural resources supermarket stores and aims at becoming a comprehensive vertically integrated agricultural resources supplier in Mainland China.
- The Group has achieved impressive growth in sales and profit in the past few years, with a turnover of approximately HK\$187,161,000 for the year ended 30th June, 2001, and profit attributable to shareholders of approximately HK\$60,599,000, representing an exponential increase of 116% and 102% respectively as compared to the previous financial year.
- The turnover included an amount of approximately HK\$23,326,000 contributed from the operation of agricultural resources supermarket stores which is a new business sector of the Group established in this year.
- Looking ahead, the Group will continue its efforts in technological research and development of hi-tech and environmental-friendly new products and establishment of agricultural resources supermarket stores in order to achieve product diversification and strengthen its market network in the future.

## ANNUAL RESULTS

The Directors are pleased to announce the audited consolidated results of China Agrotech Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) for the year ended 30th June, 2001, together with comparative figures for the previous financial year, as follows:

	<i>Note</i>	<b>For the year ended</b>	
		<b>30th June,</b>	<b>2000</b>
		<b>2001</b>	<b>2000</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	a	187,161	86,732
Cost of sales		<u>(60,250)</u>	<u>(18,958)</u>
Gross profit		126,911	67,774
Selling and distribution expenses		(41,437)	(18,545)
General and administrative expenses		<u>(22,176)</u>	<u>(17,128)</u>
Profit from operations		63,298	32,101
Interest income		5,108	2,768
Finance costs		<u>(7,901)</u>	<u>(1,074)</u>
Profit before taxation		60,505	33,795
Taxation	b	<u>—</u>	<u>(1,640)</u>
Profit after taxation but before minority interests		60,505	32,155
Minority interests		<u>94</u>	<u>(2,147)</u>
Profit attributable to shareholders		60,599	30,008
Retained profit, beginning of year		18,861	1,921
Transfer to statutory reserves		(7,713)	—
Elimination of goodwill		<u>(13,203)</u>	<u>(13,068)</u>
Retained profit, end of year		<u>58,544</u>	<u>18,861</u>
Earnings per share			
—Basic	c	<u>HK24.2 cents</u>	<u>HK13.6 cents</u>

*Notes:*

- a. Turnover represents 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. No provision for Mainland China enterprise income tax was made as the group companies in Mainland China were either in tax loss position or exempted from enterprise income tax during the year ended 30th June, 2001 (2000: enterprise income tax of approximately HK\$1,640,000 was provided). Details of taxation have been set out in the Company's annual report.

c. Earnings per share

The calculations of basic earnings per share for the year ended 30th June, 2001 is based on the consolidated profit attributable to shareholders of approximately HK\$60,599,000 (2000: HK\$30,008,000) and the weighted average of 250,000,000 shares (2000: approximately 219,877,000 shares) in issue during the year.

No diluted earnings per share is presented as the outstanding unlisted warrants were anti-dilutive.

d. Reserves

Movements of reserves during the year ended 30th June, 2001 are summarised as follows:

	<b>Share premium</b> <i>HK\$'000</i>	<b>Statutory reserves</b> <i>HK\$'000</i>	<b>Capital reserve</b> <i>HK\$'000</i>	<b>Cumulative translation adjustments</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Balance as at 30th June, 1999	—	293	—	16	309
Premium on issue of shares	82,500	—	—	—	82,500
Share issuance expenses	(11,776)	—	—	—	(11,776)
Capitalisation of share premium	(17,300)	—	—	—	(17,300)
Effect of the Reorganisation (Note e)	—	—	1,188	—	1,188
Translation adjustments	<u>—</u>	<u>—</u>	<u>—</u>	<u>255</u>	<u>255</u>
Balance as at 30th June, 2000	53,424	293	1,188	271	55,176
Transfer from retained profit to statutory reserves	—	7,713	—	—	7,713
Translation adjustments	<u>—</u>	<u>—</u>	<u>—</u>	<u>206</u>	<u>206</u>
Balance as at 30th June, 2001	<u>53,424</u>	<u>8,006</u>	<u>1,188</u>	<u>477</u>	<u>63,095</u>

e. Comparative figures

On 11th November, 1999, the Company became the holding company of the other companies comprising the group pursuant to a group reorganisation ("the Reorganisation"). The

Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated income statement for the year ended 30th June, 2000 have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 30th June, 2000, rather than from the date on which the Reorganisation was completed.

## DIVIDEND

The Directors do not recommend the payment of dividend for the year ended 30th June, 2001.

## BUSINESS REVIEW AND OUTLOOK

### Overall Results

The 2001 financial year was full of challenges and break-throughs for the Group. Other than the continuous expansion of the PGR business and the production scale, the Group commenced operation of agricultural resources supermarket stores in March 2001 and currently it has already set up 35 stores in Fujian Province, Mainland China. For the year ended 30th June, 2001, the above two business sectors brought a consolidated turnover of approximately HK\$187,161,000 (2000: HK\$86,732,000) and a consolidated net profit attributable to shareholders of approximately HK\$60,599,000 (2000: HK\$30,008,000) to the Group, representing an increase of approximately 116% and 102% respectively over the previous financial year. A summary of the turnover, gross profit, gross profit margin and operating profit/(loss) by scope of business, production and sale of PGRs and operation of agricultural resources supermarket stores, is as follows:

	Production & sale of PGRs		Operation of agricultural resources supermarket stores		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	163,835	86,732	23,326	—	187,161	86,732
Gross profit	125,331	67,774	1,580	—	126,911	67,774
Gross profit margin	77%	78%	7%	—	68%	78%
Profit/(Loss) from operations	64,855	32,101	(1,557)	—	63,298	32,101

## **Plant Growth Regulators**

Since commencement of its operation in 1997, the Group has been focusing on the research and development of regulatory-type PGRs and continuously launching new products and expanding production scale to increase commercial efficiency and consolidate its market position. Since the beginning of the financial year 1999, the Group made improvements on the original general-type PGR and modified it into two specific-type PGRs (one for vegetable and one for fruits). Later, the Group launched an addition of two new types of PGR (one for rice and one for tobacco) in 2000. Production scale was also expanded from the original two to six production lines. The new products obtained a good market response after they have been launched and therefore set a firm foundation for profit contribution to the Group.

By the end of 2000, research on the two newly launched products (PGRs for flowers and edible fungi) was successfully completed, and was put into production in June 2001 after the installation of two new production lines.

Therefore, at present, the Group has a total of eight production lines, comprising one line for vegetable, two for fruits, two for rice, one for tobacco, one for flowers and one for edible fungi.

During the year under review, included in the consolidated turnover for the year ended 30th June, 2001 was an amount of approximately HK\$163,835,000 derived from the sale of PGRs, representing an increase of 89% as compared to approximately HK\$86,732,000 in 2000. Profit from operations of this business sector also increased from approximately HK\$32,101,000 in 2000 to approximately HK\$64,855,000 in 2001, representing an increase of 102%. Such a remarkable growth was mainly attributable to the profit contribution to the entire financial year of 2001 from the sale of PGRs for rice and tobacco which were put into production since May 2000, and the increasing recognition in the quality of products by users, as well as the success of the Group in its control over production costs.

For the year ended 30th June, 2001, the Group's production volume of PGRs has been augmented to 1,382 tonnes (2000: 746 tonnes), an increase of approximately 85% over the previous financial year. A summary of the production volume of various types of PGRs and their percentage over total production volume is as follows:

	<b>2001</b>		<b>2000</b>	
	<i>tonnes</i>	<i>%</i>	<i>tonnes</i>	<i>%</i>
PGR for vegetable	252	18%	261	35%
PGR for fruits	487	36%	354	47%
PGR for rice	415	30%	87	12%
PGR for tobacco	196	14%	44	6%
PGR for flowers	16	1%	—	—
PGR for edible fungi	16	1%	—	—
	<u>1,382</u>	<u>100%</u>	<u>746</u>	<u>100%</u>

The joint efforts for research and development of new products between the Group and research organisations have been progressing smoothly, among which, the research and development of PGRs for corn and oil-seeds jointly conducted by the Group and the Crop Biochemical Control Research Centre of the China Agricultural University (中國農業大學農作物化學控制研究中心) is expected to be completed by the end of 2001 and to be put into production by mid 2002. The research and development of PGR for cotton conducted by the same research organisation is also expected to be completed by the end of 2003. On the other hand, the research and development of PGR for tea jointly conducted with the Tea Research Centre of the China Agricultural School (中國農業科學院茶葉研究所) is expected to be completed by mid 2003. Moreover, the research and development of PGRs for 5 species of fruits (lychee/longan, water melon, orange/mandarin, pomelo, banana) jointly conducted by the Group and 福建省熱帶作物研究所 and 漳州市農業局 have also been progressing rapidly, after which they will be put into production in the near future.

As the Group will progressively increase its dependence on the network of agricultural resources supermarket stores as its sales and marketing channel, the Group changed the cooperation relationship with its sales staff during the year. The effect of change is that the sales personnel is now being employed directly by agricultural resources wholesale dealers and the Group in return compensates and covers the additional staff costs incurred by the wholesale dealers through increasing the sales rebates offered to them.

## **Agricultural Resources Supermarket Stores**

During the period from March to June 2001, the Group set up 35 agricultural resources supermarket stores in Fujian Province, Mainland China. The gross area of such supermarket stores and warehouses totalled to approximately 20,000 square meters.

The agricultural resources supermarket stores are mainly engaged in the sales of fertilizers and pesticides, and some of which are engaged in the trading of seeds, sapling and other agricultural materials, as well as the provision of agricultural technical consultation services. Besides the sale of products under the “CHAODA” brandname, the supermarket stores also sell fertilizers, pesticides, fungicide, herbicides and etc. produced by other domestic and overseas manufacturers. The Group has secured exclusive distribution rights in Fujian Province from over 20 domestic and overseas agricultural resources manufacturers.

The agricultural resources supermarket stores are operated through invitation of the participation of agricultural resources wholesale dealers to run the stores, with the Group providing decoration designs and leasing of premises of the agricultural resources supermarket stores. The Group is also responsible for ensuring a unified brand-name, centralised product intakes and propaganda, as well as developing the sales plan of the agricultural resources products and development plans of the supermarket stores, whereas the participating dealers bear the operating expenses and are responsible for promotion of products and provision of technical consultations based on the Group’s centralised product intakes.

For the four months from March to June 2001, the turnover from this business sector was approximately HK\$23,326,000 (excluding the sales of PGRs produced by the Group) and the average gross profit margin was approximately 7%. As the business of operation of the agricultural resources supermarket stores was still at the initial stage, an inevitable preliminary expenses of considerable amounts were invested on store decorations and advertising, which explains the slight loss of this business sector recorded in the financial year ended 30th June, 2001. The Directors are confident that when operation of the agricultural resources supermarket stores are gradually put on track, and when the business has expanded to other provinces in Mainland China with a strengthened sales network and more product distribution agency rights being secured, the business of operation of agricultural resources supermarket stores will certainly become a major source of turnover and profit contribution to the Group.



## **Progress of the Biological Pesticide Project**

As people are becoming more and more aware of environmental protection, biological pesticides have drawn the attention of participants in the agricultural industry from all over the world, given its properties of higher activity, high effectiveness, safe, non-polluting and non-residual. At present, market demand for biological pesticides both in the international and domestic markets are increasing. The Group's joint efforts with the Biotechnology Research Centre of the Fujian Agricultural School (福建省農業科學院生物技術中心) on the development of a high-effectiveness biological pesticide (BtA) goes with the tide of development of pesticides in the world. The project has come to fruition, and its overall production process includes seven major technologies which require application for national patents. To date, four of these technologies have been granted national patents.

The Group is currently negotiating with the Biotechnology Research Centre of the Fujian Agricultural School (福建省農業科學院生物技術中心) on a joint production plan, which is expected to be finalised before mid 2002. The Group believes that the hi-tech, environmental-friendly agricultural product will give rise to considerable contribution to the profit of the Group and consolidate the position of the Group in the agricultural resources market.

## **Overall Operating Policy and Objective**

China Agrotech Holdings Limited is looking forward to fully leveraging on its strengths such as brand name, capital, technology and operational management, given the rare and invaluable opportunity of the Mainland China accession to the WTO and the consequent reform of the free circulation system of agricultural resources. By means of vertical integration and a convergence of resources, the Group will grow from a simple producer of agricultural resources to a major producer-cum-distributor group of agricultural resources with diversified operations, and will be growing in scale and gaining competitive edge in all aspects in the course of competition as well as cooperation with international companies. In this way, we hope that the Group will become a powerful hi-tech agricultural resources enterprise and well-known both in Mainland China and in the world.

## Comparison of business objectives with actual business progress

*Business objectives as stated in the prospectus dated 16th November, 1999*

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

### **For the year ended 30th June, 2001**

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 total contract sums of research and development of the four new products amounted to approximately RMB10 million. Since initial research studies have started, in order to ensure that the targeted timing of launching the new products can be met, the Group had made progress payments of approximately RMB 5 million during the year ended 30th June, 2000, which was financed by the net proceeds of the share offer, to the research centres so as to speed up their work. An addition of approximately RMB 2 million was paid as progress payments during the year ended 30th June, 2001.

The Group plans to construct two additional production lines, one of which will be used for the production of PGR for fungi and the other for the production of PGR for flowers. The total estimated construction cost of the two production lines is HK\$ 10 million, which the Group intends to finance from its internal resources. The construction is expected to be completed in early 2001, with commercial production targetted to commence in the first half of year 2001.

The total construction cost of the two new production lines amounted to approximately RMB 8 million, which was paid and was financed from internal resources of the Group. The construction of production lines was completed in May 2001 and commercial production of the two PGRs for fungi and flowers commenced in June 2001.

The Group estimates that a further amount of approximately HK\$ 3 million of the net proceeds of the share offer will be used as part of sales and promotion expenses during the year ended 30th June, 2001.

The Group signed a renewal contract with the previous business advertising and promotion services company for nationwide advertising and promotion activities for the Group's products for the year 2001. The contract sum amounted to RMB 8 million, of which RMB 4 million was paid and was financed from the net proceeds of the share offer.

By the end of the year ended 30th June, 2001, the Group expects to have eight production lines in operation with a total annual production capacity of 2,240 tonnes of PGRs. The Group estimates that the annual production capacity of PGR for vegetables, fruits, tobacco, rice, fungi and flowers will then reach approximately 280 tonnes, 560 tonnes, 280 tonnes, 560 tonnes, 280 tonnes and 280 tonnes respectively.

After the installation of the two new production lines for PGR for fungi and flowers, the Group's annual production capacity has been increased from 1,680 tonnes to 2,240 tonnes of PGRs.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30th June, 2001, 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:

### The Company

Name of director	Personal interests	Number of Shares			Total	Percentage of 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 30th June, 2001.

## SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2001, except the two directors, who were also the management shareholders, of the Company as disclosed in the Directors' Interests in Securities section of this announcement, 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 30th June, 2001.

## SPONSOR'S INTERESTS

Except as described below, as at 30th June, 2001, ICEA Capital Limited ("ICEA"), the Company's sponsor, and its associates, directors and employees have no interest (as referred to in rule 6.36 of the GEM Listing Rules) in the Company.

Pursuant to the agreement dated 24th November, 1999 entered into between the Company and ICEA, ICEA will receive a fee for acting as the Company's retained sponsor for the period from 25th November, 1999 to 30th June, 2002.

## **COMPETING INTERESTS**

None of the Director, management shareholder and their respective associates (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

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

During the year 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, 28th September, 2001

*This announcement will remain on the GEM website on the "Latest Company Announcements" page for 7 days from the day of its posting.*

*\* For identification purposes only*