

BUSINESS REVIEW AND OUTLOOK

Overall Results

The year 2001 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 the operation of agricultural resources supermarket stores in March 2001 for the trading of pesticides, fertilizers and other agricultural resources products and as at 31st December, 2001 it has already set up 44 stores in Fujian Province, Mainland China. For the six months ended 31st December, 2001, the Group achieved a consolidated turnover of approximately HK\$123,086,000 (2000: HK\$79,006,000) and a consolidated net profit attributable to shareholders of approximately HK\$35,982,000 (2000: HK\$34,230,000), representing an increase of approximately 56% and 5% respectively over the corresponding period of 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 trading of agricultural resources products, is as follows:

	Production & sale of PGRs		Trading of agricultural resources products		Total	
	Six months ended 31st December,		Six months ended 31st December,		Six months ended 31st December,	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	85,170	79,006	37,916	—	123,086	79,006
Gross profit	62,234	61,504	2,516	—	64,750	61,504
Gross profit margin	73%	78%	7%	—	53%	78%
Profit/(Loss) from operations	39,198	35,916	(1,070)	—	38,128	35,916

Plant Growth Regulators

Since the 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 period under review, included in the consolidated turnover for the six months ended 31st December, 2001 was an amount of approximately HK\$85,170,000 derived from the sale of PGRs, representing an increase of 8% as compared to approximately HK\$79,006,000 in the corresponding period of 2000. Profit from operations derived from the sale of PGRs also increased from approximately HK\$35,916,000 in 2000 to approximately HK\$39,198,000 in 2001, representing an increase of 9%. The growth was mainly attributable to the profit contribution to the current period from the sale of PGRs for flowers and edible fungi which were put into production since June 2001, 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 six months ended 31st December, 2001, the Group's production volume of PGRs has been augmented to 727 tonnes (2000: 659 tonnes), an increase of approximately 10% over the corresponding period of 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:

	Six months ended 31st December,			
	2001		2000	
	<i>tonnes</i>	<i>%</i>	<i>tonnes</i>	<i>%</i>
PGR for vegetable	125	17%	130	20%
PGR for fruits	223	31%	251	38%
PGR for rice	152	21%	199	30%
PGR for tobacco	72	10%	79	12%
PGR for flowers	81	11%	—	—
PGR for edible fungi	74	10%	—	—
	<u>727</u>	<u>100%</u>	<u>659</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 PGR for corn 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) has been completed by the end of 2001 and the research and development of PGR for oil seeds is expected to be completed in early 2002 and both of them be put into production in 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.

Trading of Agricultural Resources Products

During year 2001, the Group set up 44 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 run by participating agricultural resources wholesale dealers. These dealers sell PGRs, fertilizers, pesticides, seeds, sapling and other agricultural resources products. 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 the unified brand name, decoration and the premises of the agricultural resources supermarket stores. The Group is also responsible for centralising product intakes and the publicity and promotion of the brand name, 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 product intakes.

For the six months ended 31st December, 2001, the turnover from this business sector was approximately HK\$37,916,000 (excluding the sales of PGRs produced by the Group) and the average gross profit margin was approximately 7%. As the business of trading of agricultural resources products was still at the initial stage, preliminary expenses of considerable amounts were invested on store decorations and advertising and promotions, which explains the slight loss recorded in the six months ended 31st December, 2001. The Directors are confident that when the Group expands the trading business of agricultural resources products to other provinces in Mainland China and is able to secure the exclusive rights to distribute more agricultural resources products, the business will become profitable.

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. We plan to further develop the Group into a vertically integrated provider of agricultural resources products by establishing agricultural resources supermarket stores in selected regions in Mainland China.