

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 **2000 - 2001**

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 report 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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this interim results report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this interim results report.

This interim results report, 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 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.

INTERIM 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 the PRC and to achieve higher productivity and efficiency. The Company is currently the ONLY producer of regulatory-type plant growth regulator (“PGR”) in the PRC with substantial potential for growth and development. The Company has achieved impressive growth in sales and profit in the past few years, with a turnover of approximately HK\$79,006,000 for the six months ended 31st December, 2000, and profit attributable to shareholders of approximately HK\$34,230,000, representing an exponential increase of 156% and 186% 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 hi-tech and environmental-friendly new products in order to achieve product diversification and better results in the future.

INTERIM 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, 2000, together with comparative figures for the corresponding periods in 1999, as follows:

	<i>Notes</i>	For the three months ended 31st December,		For the six months ended 31st December,	
		2000	1999	2000	1999
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	b	41,297	18,749	79,006	30,835
Cost of sales		(8,922)	(4,037)	(17,502)	(6,763)
Gross profit		32,375	14,712	61,504	24,072
Selling and distribution expenses		(8,398)	(2,472)	(16,522)	(4,331)
General and administrative expenses		(3,775)	(4,055)	(9,066)	(5,507)
Profit from operations		20,202	8,185	35,916	14,234
Interest income		1,315	391	2,521	392
Finance expense		(2,780)	(49)	(3,620)	(49)
Profit before taxation		18,737	8,527	34,817	14,577
Taxation	c	(337)	(250)	(587)	(466)
Profit after taxation but before minority interests		18,400	8,277	34,230	14,111
Minority interests		—	(1,322)	—	(2,147)
Profit attributable to shareholders		18,400	6,955	34,230	11,964
Earnings per share	d				
— Basic		7.36 cents	3.39 cents	13.69 cents	6.29 cents

Notes:

a. Group reorganisation and basis of presentation

The Company was incorporated in the Cayman Islands on 9th September, 1999 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company's shares have been listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since 25th November, 1999.

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong. 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 unaudited combined results of the Group for the six months ended 31st December, 1999 have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the six months ended 31st December, 1999, rather than from the date on which the Reorganisation was completed.

b. Turnover comprised the net invoiced value (excluding value-added tax) of merchandise sold after allowances for returns and discounts.

c. 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.

d. Earnings per share

The calculations of basic earnings per share for the three months and six months ended 31st December, 2000 were based on the unaudited consolidated profit attributable to shareholders of approximately HK\$18,400,000 for the three months ended 31st December, 2000 and HK\$34,230,000 for the six months ended 31st December, 2000 and on the 250,000,000 shares in issue during the six months ended 31st December, 2000.

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.

Diluted earnings per share was not presented because there were no dilutive potential ordinary shares in existence during the six months ended 31st December, 1999 and 2000.

INTERIM DIVIDEND

The Directors do not recommend the payment of interim dividend for the six months ended 31st December, 2000 (1999: Nil).

RESERVES

There has been no transfer to or from reserves during the six months ended 31st December, 2000 (1999: Nil).

BUSINESS REVIEW AND OUTLOOK

Business Review

For the six months ended 31st December, 2000, the Group recorded a consolidated turnover of approximately HK\$79,006,000 (1999: HK\$30,835,000), representing approximately 1.6 times increase. The unaudited profits attributable to shareholders was approximately HK\$34,230,000 (1999: HK\$11,964,000), representing an increase of approximately 1.9 times.

For the six months ended 31st December, 2000, the sales volume of the Group has been augmented to 659 tonnes, an increase of 1.5 times as compared to 263 tonnes in the corresponding period of the previous financial year, with 130 tonnes for PGR for vegetables, 251 tonnes for PGR for fruits, 199 tonnes for PGR for rice, and 79 tonnes for PGR for tobacco.

The Group is the only domestic producer of regulatory-type PGR. As the effectiveness being brought by PGR is increasingly well-recognised by the users and the Group has developed a mature strategy in monitoring and controlling production costs, the Group's gross profit margin was maintained at a high level of 78% during the periods.

Progress has been made on the product development jointly conducted by the Group and the Centre for the Biochemical Control of Agricultural Products under the China Agricultural University and other research organizations. During the last financial year, the development of PGR designated for rice and tobacco have been completed. Commercial production was commenced in early May 2000. Development of other new products, including PGRs for edible fungi, flowers, corn and oil seeds has been proceeding very smoothly. The development of PGRs for fungi and flowers was completed by the end of 2000 and production will commence in mid-2001, while development of PGRs for corn and oil seeds will be completed by the end of 2001 and production will commence in mid-2002.

The Group has also started research and development work on PGRs for other agricultural produce such as cotton, tea and other specific kinds of fruits and these new products will be launched after the completion of research and development work.

In order to broaden the Group's profit base, the Group has put great effort on the establishment of agricultural resource supermarket stores as a new business sector and the project has been proceeding smoothly. At present, the Group has already established 15 agricultural resource supermarket stores in the Fujian Province and it is expected that a total of 35 stores will be set up in the Fujian province during 2001, and will be expanded to other provinces commencing from 2002. Such agricultural resource supermarket stores is mainly engaged in the sale of fertilizers and pesticides, and some of which will be engaged in the trading of seeds, sapling and other agricultural materials, as well as the provision of agricultural technical consultation services. At present, other than the sales of products through the brand "Chaoda", products such as fertilizer, pesticide, fungicide, and herbicide produced by other domestic and overseas manufacturers are also sold in the stores.

In December 2000, the Group obtained the accreditation of ISO 9001 and ISO 14001, and is the first PRC enterprise being able to obtain such accreditation in the PGR industry. It has proven the Group's strong commitment to contribute to product quality and environmental protection.

FUTURE PROSPECTS

Following PRC's entry into the World Trade Organization ("WTO"), it is expected that there will be an influx of agricultural products from overseas. In a long term, the quality of agricultural products in the PRC need to be improved in order to remain competitive in the market. The Board believes that, under such market force the Group will achieve further growth and development due to its high quality products, advanced technology and effective marketing strategies. On the other hand, the Group will face challenges from agricultural technology product suppliers overseas. Therefore, the Group will aim to consolidate its market share in the industry and develop new PGRs for other specific agricultural produce in order to maintain its leading position in the PGR industry in the PRC, as well as to establish agricultural resource supermarket stores and further develop hi-tech and environmental-friendly new products such as biological and plant-based pesticides, thereby sustaining strong and stable development in the future.

Comparison of business objectives with actual business progress

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 for a consideration of RMB8.4 million.

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

Commercial production of PRGs for rice and tobacco commenced in early May 2000.

Having considered the development costs and the scale of its future operations, the Group did not proceed with the original letter of intent and no deposit was paid or forfeited in that respect. Instead, the Group 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 consideration of RMB9 million which has been paid and was financed by the net proceeds of the share offer in November 1999.

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 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 ended 30th June, 2000. The Group also 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 ending 30th June 2001.

The new production facility has been established on the HuiAn site. The construction work was completed in May 2000. Apart from the RMB9 million for the acquisition of land use rights as mentioned above, the Group also signed contracts for plant construction works with total contract sum amounting to approximately RMB9 million which has been paid and was financed by the net proceeds of the share offer.

The Group signed contracts with suppliers of different parts of the four production lines with total contract sum amounting to approximately RMB23 million which has been paid and was financed by the net proceeds of the share offer. The construction and installation of the four production lines was completed in April 2000. The Group's total annual production capacity has been increased from 560 tonnes to 1,680 tonnes of PGRs.

The Group 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 which has been paid and was financed by the net proceeds of the share offer. The Group has also completed the establishment of an internet website for product promotion, the cost of which has been included in the contract sum of RMB7.6 million. The Group also incurred approximately RMB2 million for other advertising and promotion activities such as newspaper advertising and demonstration video during the year ended 30th June 2000. In addition, approximately RMB2 million was incurred during the six months ended 31st December 2000 for conducting on-site product demonstrations.

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 ended 30th June, 2000.

The Group expects that the research and development work on PGR for fungi and flowers will be completed before the end of 2000 and launch the products in the first half of 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 Group estimates that the total cost of constructing the two new production lines will amount to HK\$10 million which the Group intends to finance from its internal resources. They are expected to be completed in early 2001.

DIRECTORS' INTERESTS

As at 31st December, 2000, 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	Personal interests	Number of Shares			Other interests	Total	Percentage of interests
		Family interests	Corporate 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 Group has started cooperation with three different research centres for the research and development works, including testing and conducting field experiment, with total contract sum amounting 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 has made progress payments of approximately RMB5 million during the year ended 30th June, 2000 and RMB2 million during the six months ended 31st December, 2000, which were financed by the net proceeds of the share offer, to the research centres so as to speed up their work.

Research and development work on PGR for fungi and flowers has been completed and commercial production is expected to commence before June 2001.

The Group signed contracts with suppliers of different parts of the two new production lines with total contract sum amounting to approximately RMB10 million of which approximately RMB6 million has been paid and was financed from its internal resources. The construction and installation of the two production lines are expected to be completed in early 2001.

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, 2000.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, except the two directors, who were also the management shareholders of the Company as disclosed in the Directors' Interests 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 31st December, 2000.

SPONSOR'S INTERESTS

Except as described below, as at 31st December, 2000, 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 AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 31st December, 2000, 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, 12th February, 2001