



China Agrotech Holdings Limited

浩倫農業科技集團有限公司

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

**FIRST QUARTER REPORT**

**2002**

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*This First Quarter 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 First Quarter 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 First Quarter Report misleading; and 3. all opinions expressed in this First Quarter Report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## FIRST QUARTER RESULTS HIGHLIGHTS

- The Group has achieved impressive growth in sales and profit in the past few years, with a turnover of approximately HK\$61,765,000 for the three months ended 30th September, 2001, and profit attributable to shareholders of approximately HK\$17,499,000, representing an increase of 64% and 11% respectively as compared to the same period of the previous financial year.
- The turnover included an amount of approximately HK\$17,783,000 contributed from the operation of the trading of agricultural resources products newly established in the previous financial 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 selected regions in Mainland China.

## FIRST QUARTER RESULTS (UNAUDITED)

The Directors are pleased to announce the unaudited consolidated results of China Agrotech Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) for the three months ended 30th September, 2001, together with comparative figures for the corresponding period in 2000, as follows:

		<b>For the three months ended</b>	
		<b>30th September,</b>	
	<i>Note</i>	<b>2001</b>	<b>2000</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	a	61,765	37,709
Cost of sales		<u>(28,036)</u>	<u>(8,580)</u>
Gross profit		33,729	29,129
Selling and distribution expenses		(10,004)	(8,124)
General and administrative expenses		<u>(4,809)</u>	<u>(5,291)</u>
Profit from operations		18,916	15,714
Interest income		912	1,206
Finance costs		<u>(2,329)</u>	<u>(840)</u>
Profit before taxation		17,499	16,080
Taxation	b	<u>—</u>	<u>(250)</u>
Profit attributable to shareholders		<u><u>17,499</u></u>	<u><u>15,830</u></u>
Earnings per share	c		
— Basic		<u>HK7.0 cents</u>	<u>HK6.3 cents</u>
— Diluted		<u>HK7.0 cents</u>	<u>HK6.3 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 three months ended 30th September, 2001 (2000: enterprise income tax of approximately HK\$250,000 was provided).
- c. Earnings per share

The calculations of basic earnings per share for the three months ended 30th September, 2001 is based on the unaudited consolidated profit attributable to shareholders of approximately HK\$17,499,000 (2000: HK\$15,830,000) and the weighted average of 250,000,000 shares in issue during the three months ended 30th September, 2001 (2000: 250,000,000 shares).

The calculation of diluted earnings per share for the three months ended 30th September, 2001 is based on the unaudited consolidated profit attributable to shareholders of approximately HK\$17,499,000 (2000: HK\$15,830,000) and the weighted average number of approximately 250,755,000 shares (2000: 250,000,000 shares) in issue, after adjusting for the effect of all dilutive potential shares. The effect of the dilutive potential shares resulting from the exercise of the outstanding warrants on the average number of shares in issue during the period was approximately 755,000 shares (2000: Nil), which were deemed to have been issued at no consideration as if all the outstanding warrants had been exercised on the date when the warrants were granted.

d. Reserves

Movements of reserves during the three months ended 30th September, 2001 are summarised as follows:

	Three months ended 30th September, 2001					Three months ended 30th September, 2000	
	Share premium	Statutory reserves	Capital reserve	Cumulative translation adjustments	Retained earnings	Total	Total
Beginning of period	53,424	8,006	1,188	477	58,544	121,639	74,037
Profit attributable to shareholders	—	—	—	—	17,499	17,499	15,830
End of period	<u>53,424</u>	<u>8,006</u>	<u>1,188</u>	<u>477</u>	<u>76,043</u>	<u>139,138</u>	<u>89,867</u>

## DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30th September, 2001.

## SUBSEQUENT EVENT

On 31st October, 2001, certain of the unlisted warrants of the Company carrying subscription rights for shares of the Company were exercised to subscribe for 20,434,782 shares of the Company at a subscription price of HK\$1.38 per share, with total proceeds amounting to HK\$28,200,000.

## 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 currently it has already set up 44 stores in Fujian Province, Mainland China. For the three months ended 30th September, 2001, the Group achieved a consolidated turnover of approximately HK\$61,765,000 (2000: HK\$37,709,000) and a consolidated net profit attributable to shareholders of approximately

HK\$17,499,000 (2000: HK\$15,830,000) to the Group, representing an increase of approximately 64% and 11% 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:

	Trading of Production & sale of PGRs		agricultural resources products		Total	
	Three months ended 30th September,		Three months ended 30th September,		Three months ended 30th September,	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	43,982	37,709	17,783	—	61,765	37,709
Gross profit	32,423	29,129	1,306	—	33,729	29,129
Gross profit margin	74%	77%	7%	—	55%	77%
Profit/(Loss) from operations	19,552	15,714	(636)	—	18,916	15,714

### 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 three months ended 30th September, 2001 was an amount of approximately HK\$43,982,000 derived from the sale of PGRs, representing an increase of 17% as compared to approximately HK\$37,709,000 in the corresponding period of 2000. Profit from operations derived from the sale of PGRs also increased from approximately HK\$15,714,000 in 2000 to approximately HK\$19,552,000 in 2001, representing an increase of 24%. Such a remarkable 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 three months ended 30th September, 2001, the Group's production volume of PGRs has been augmented to 375 tonnes (2000: 316 tonnes), an increase of approximately 19% 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:

	<b>Three months ended 30th September,</b>			
	<b>2001</b>		<b>2000</b>	
	<i>tonnes</i>	%	<i>tonnes</i>	%
PGR for vegetable	59	15%	63	20%
PGR for fruits	108	29%	126	40%
PGR for rice	113	30%	97	31%
PGR for tobacco	26	7%	30	9%
PGR for flowers	36	10%	—	—
PGR for edible fungi	33	9%	—	—
	<u>375</u>	<u>100%</u>	<u>316</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.

### **Trading of Agricultural Resources Products**

During the period from March to September 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 three months ended 30th September 2001, the turnover from this business sector was approximately HK\$17,783,000 (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, which explains the slight loss recorded in the three months ended 30th September, 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.

### DIRECTORS' INTERESTS IN SECURITIES

As at 30th September, 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

Number of Shares	Personal interests	Name of director			Tota	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 September, 2001.



## **SUBSTANTIAL SHAREHOLDERS**

As at 30th September, 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 September, 2001.

## **SPONSOR'S INTERESTS**

Except as described below, as at 30th September, 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 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, 14th November, 2001