



China Agrotech Holdings Limited aims at becoming the largest production base of bio-agricultural resources products in the Mainland China and establishing a nationwide agricultural resources circulation network, thus providing a vertical agriculture solution to the huge agricultural resources market in the Mainland China

I am pleased to present to shareholders the annual results of China Agrotech Holdings Limited ("China Agrotech" or the "Company") and its subsidiaries (collectively the "Group") for the year ended 30 June 2002.

Switching of Listing from GEM to the Main Board

The 14th day of January 2002 marked the commencement of a new era in the Group's development. On that day, China Agrotech was listed on the main board of The Stock Exchange of Hong Kong Limited, and became the first company to switch its listing from the GEM to the main board. During the listing on the GEM over the past two years, the Group received support from its shareholders and investors, and with the joint efforts of the management and the staff, it achieved sound results in business development. This has also laid down a solid foundation for the Group's future development. Hereunder, I would like to highlight the performance, outlook and future prospects of the various operations of the Group in the financial year 2002.

Turnover and Profits

For the year ended 30 June 2002, the consolidated turnover of the Group was approximately HK\$349,291,000 (2001: HK\$187,161,000), a growth of approximately 87%; and the audited net profit attributable to shareholders was approximately HK\$62,260,000 (2001 : HK\$60,599,000), a growth of approximately 3%.

Business Review and Outlook

Plant Growth Regulators

The business of plant growth regulators ("PGRs") has been bringing steady and gradually growing profit contribution to the Group. For the financial year ended 30 June 2002,

turnover and operating profit derived from the business of PGRs were approximately HK\$190,467,000 and HK\$88,461,000 respectively, representing a growth of approximately 16% and 21% respectively as compared to the last financial year. Gross profit margin has been able to maintain at the level of more than 70%. Growth in the year was mainly attributable to the full-year profit contribution generated by the sales of PGRs for flowers and edible fungi since their production in June 2001, as well as due to the steady growth in the sales of PGRs for vegetables and fruits.

In June 2002, the Group put into production of PGR for corn after successful development by the Group. At present, the Group has a total of nine PGR production lines, with a total annual production capacity of 2,520 tonnes, including : PGR for vegetables (280 tonnes), PGR for fruits (560 tonnes), PGR for rice (560 tonnes), PGR for tobacco (280 tonnes), PGR for flowers (280 tonnes), PGR for edible fungi (280 tonnes) and PGR for corn (280 tonnes).



With regard to the R&D of new products, the Group is currently cooperating with different scientific research institutes in the research and development of various types of PGRs specifically designed for cotton, tea, soya bean, Chinese herbs, high oil-yield corn and corn for fresh consumption. It is expected that the R&D on these new products will be completed between 2003 to 2004 successively and will be put into production,



making the types of PGRs of the Group to be more diversified and the quality of agriculture produces to be more enhanced.

Agricultural Resources Distribution Network

Upon the eventual accession of the Mainland China to the WTO, overseas agricultural resources manufacturers and dealers will soon enter the Mainland China market. As overseas enterprises enjoy the benefits of advanced technology, financial strength and mature management, the Group considers that network channels and brand name services are the most valuable, and are the only means in which China agricultural resources enterprises can establish a competitive edge over their overseas counterparts.

Meanwhile, green agriculture production enterprises are emerging in the Mainland China, and facing with huge farms and modern orchards, the Group's hi-tech agricultural resources products and standardised agricultural resources services have become important competitive strengths.

The distribution network operations of the Group's agricultural resources are carried out through centralised bulk purchases to minimize commercial costs of agricultural resources products. In addition, the Group adopts strategies of unified management, unified brand name, unified promotion and unified accounting, thereby standardising the operation procedures and centralising the control of product quality and service standards. In this way, the Group achieved the expansion of business with high cost-effectiveness and established a strong brand name in the agricultural resources circulation sector and in the minds of end users.

The Group has set up strong agricultural resources service and sales network in Fujian Province since the beginning of 2001 and achieved satisfactory results. Starting from 2002, the Group's agricultural resources sales network has been expanded to other provinces, including Shanxi, Jiangxi, Hunan and Jiangsu, and in steps, it is achieving its set targets - to establish the



largest agricultural resources products distribution and retail network and to become a leader in the agricultural resources circulation sector in the Mainland China.

During the financial year of 2002, the operation of agricultural resources distribution network has brought a turnover of approximately HK\$158,824,000 to the Group, representing 45% of the Group's consolidated turnover, and a substantial increase of 581% over the previous year. As this business was still at the initial development stage, considerable preliminary expenses on advertising and promotion have to be invested and it is necessary to strengthen the market network, and therefore it was yet to generate remarkable profit contribution. The Group believes that when the network foundation in the provinces of the Group's existing market becomes more mature, the Group will integrate the agriculture production enterprises with stronger edges in the upperstream with the agricultural resources trading enterprises and human resources in the downstream, and by that time, the Group's agricultural resources circulation channel and network will be significantly strengthened, and operation efficiency will be more obvious, and ultimately, generate satisfactory income and profit for the Group.

Looking forward, the Group will continue to extend its agricultural resources distribution network to other suitable provinces in the Mainland China, to extend its coverage, and to capture more exclusive rights of distribution from domestic and overseas agricultural resources product manufacturers, thereby enabling the Group to become the largest agricultural resources products logistics platform in the Mainland China in the near future.



Progress of Biological Pesticide Project

With an upgrade in people's healthy living standards, coupled with an acute need of solving the problem of food safety in the Mainland China, and above all, with the support from the Mainland China State on the development of green ecological agriculture, the use of biological pesticides, which are highly effective, highly efficient, safe and environmental-friendly, during the growing stage of agriculture produces has become an inevitable trend.

Going along with this trend of green ecological agriculture, the Group is developing and manufacturing non-polluting agricultural resources products, and through standardised agricultural resources product sales network, it provides a safeguard for the production of safe agriculture produces in the Mainland China.

As the first step to achieve this mission, the Group entered into an agreement 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 1 August 2002, pursuant to which the Group acquired the intellectual property rights in respect of a highly effective biological pesticide (called BtA) developed by the Research Centre, and the exclusive rights for the continued development and production of BtA, at a consideration of RMB48,000,000. The Group expects that the acquisition will provide the chance of diversifying its products and broaden the income base of the Group. BtA will be put into production by the fourth quarter of 2002, and will be a new area for growth in profit contribution to the Group in the future.



In future, the Group will continue to cooperate with prestigious research institutes in the Mainland China and to identify successful technological research outcomes in various sectors of ecological agriculture, and to realise their commercial values in the market, so as to establish China Agrotech as a strong bio-agricultural resources production base in the Mainland China.

Positioning and Corporate Strategy of China Agrotech

By leveraging on its strong product research and development capabilities, high quality products, experienced and professional management, successfully established brand name of "China Agrotech", rapidly expanding distribution network and the integration of upstream and downstream resources as the core competitiveness of the Group, China Agrotech has obtained its first success in its steadily growing PGR business. In future, the Group will continue to develop high value-added biological agricultural resources products, to capture the huge market of biological pesticides and to integrate upstream and downstream agricultural resources product brands in line with the rapid expansion of chained sales network, and aim at becoming the largest production base of bio-agricultural resources products in the Mainland China and establishing a nationwide agricultural resources circulation network. As such, it will maximise the profits to the Group and hence, generate fruitful returns for its shareholders.

Acknowledgment

I would like to take this opportunity to express my gratitude to all the members of the board, the senior management and all the staff for their zeal and dedication over the years. In addition, I would also like to express on behalf of the board our most sincere thanks to all our customers, suppliers, scientific research units and all of its business partners for their continuous support.

Wu Shaoning
Chairman

Hong Kong, 28 October 2002