



I am pleased to present to the 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 2003.

## **TURNOVER AND PROFITS**

For the year ended 30 June 2003, the consolidated turnover of the Group was approximately HK\$664,092,000 (2002: HK\$349,291,000), representing a growth of approximately 90%; and the audited profit attributable to shareholders was approximately HK\$27,149,000 (2002: HK\$62,260,000), representing a decrease of approximately 56%.

## **BUSINESS REVIEW AND OUTLOOK**

### **Bio-agricultural Production Business**

#### *Plant Growth Regulators*

The business of plant growth regulators ("PGRs") has been making substantial profit contribution to the Group. For the financial year ended 30 June 2003, turnover and operating profit derived from the PGR business were approximately HK\$144,123,000 and HK\$62,059,000 respectively, representing a decrease of approximately 24% and 29% respectively as compared to the previous year. Gross profit margin was approximately 72% (2002: approximately 75%). The decreases in turnover and operating profit for the year were mainly attributable to the consolidation of the circulation channels of agricultural resources which affected the operations of wholesale dealers; intensified market competition; the sustained rainy season and drought affecting the applications of pesticides; and the structural changes in the cultivation of crops.



In addition, the Group reduced the selling prices of the PGRs by approximately 20% since 2003, while the cost of raw materials also lowered to a certain extent, resulting in a fall of approximately 3% in the gross profit margin for the year.

With regard to newly launched products, following the successful development of PGRs for tea and soya beans by the Group, production commenced in June 2003.

With regard to the research and development of new products, the Group is currently in collaboration with different scientific research institutes in the R&D of various types of PGRs specifically formulated for cotton, Chinese herbs, high oil-yield corn and corn for fresh consumption. It is expected that the R&D of these new products will be completed between 2003 and 2005 and put into production, diversifying the Group's PGR product range, as well as enhancing the quality of agriculture produces. The Group will also consolidate its sales channels and refine its marketing strategies, so as to capture a bigger market share.



#### *Biological Pesticide*

With the strong support of the State on the development of green ecological agriculture, the application of biological pesticides, which are of broad spectrum, highly efficient, safe and environmental-friendly, in growing agriculture produces has been increasing and has become a popular trend. As a hi-tech agricultural enterprise, China Agrotech's bio-agricultural resources production base has transformed the satisfactory outcome of research jointly achieved by research centres and the enterprise into the production of practical products. 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) in 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 to the continuing development and production of BtA, at a consideration of approximately HK\$45,257,000. Following the completion of the extension of the production plant, installation of facilities, and inspection and trial run over a few months, BtA has been put into production in March 2003. However, production was interrupted in April and May due to the outbreak of SARS. Consequently, the sales volume of BtA recorded only approximately 73 tonnes for the year, and the turnover and operating profit (excluding amortisation of acquisition cost of the intellectual property) were approximately HK\$4,489,000 and HK\$296,000 respectively. It is expected that once normal production resumes, BtA will bring about remarkable income and profit contribution to the Group.

#### *Investments in Other Hi-Tech Agricultural Resources Products*

To further accelerate the realisation of the Group's aim to establishing a strong hi-tech bio-agricultural resources production base, and after having conducted in-depth market research, the Group has decided to make investments in several new agricultural resources products with high potential for development. Such investments comprise the following:

- (1) Collaboration with the Resources and Environmental School of the Fujian Agricultural and Forestry University (福建農林大學資源與環境學院) to conduct a research on the conjugation of PGR with the amino-acidic liquid fertiliser acquired last year. The effectiveness of this new compound product will be higher than that of the single use of PGR or amino-acidic liquid fertiliser. It is expected that the research will be completed by the end of 2003;
- (2) Collaboration with the Meloidogyne Research Laboratory of the Plant Protection School of the Fujian Agricultural and Forestry University (福建農林大學植物保護學院線蟲研究室) to conduct the R&D of another new product specially formulated to effectively eliminate Meloidogyne, since there are diverse species of Meloidogyne and that Meloidogyne are commonly found in growing crops. It is expected that the R&D will be completed by the end of 2004; and



- (3) Acquisition of three specialised compound fertilisers for tea, bamboo shoots and cone-shaped chestnuts (錐栗) from the Soil and Fertiliser Research Centre of the Fujian Agricultural School (福建省農科院土壤肥料研究所), R&D of which have already been completed. The Group will identify suitable manufacturers for the relevant commercial production.

Looking ahead, the Group will continue to collaborate with prestigious research institutes in 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 production base in Mainland China.

### Agricultural Resources Distribution Logistics Business

Over the past two years, China Agrotech has been actively engaging in the consolidation of agricultural resources circulation channels. With the adoption of the strategy of “unified brand name, unified promotion, unified procurement, unified management, unified accounting, unified service and unified control” aiming to optimize the allocation of resources, coupled with the application of modern chain business management practices and branded chain operation model, the Group established agricultural resources warehouse stores in many provinces and municipals under the brand “China Agrotech”, forming a sizable green agricultural resources circulation platform.



The agricultural resources distribution logistics business of China Agrotech is well connected with upstream producers and downstream consumers.

In respect of upstream producers, the Group implemented measures such as assorted testing, centralised purchasing at fixed locations, regional logistics centres and maintaining reasonable stock levels, thus leading the agricultural resources manufacturing sector towards technological innovations in accordance with the needs of agricultural production, while continuing to achieve growth.

In respect of downstream consumers, the Group provided agricultural producers with guidance on scientific, proper and safe applications of chemical fertilisers and pesticides, and actively promoted the use of fine seeds, organic fertilisers and biological pesticides, enabling agricultural producers' effective applications of hi-tech agricultural resources products, assuring safety of agriculture produces and greatly enhancing the development of modern ecological agriculture.

China Agrotech's Supply Chain Management System (the "SCM") centralises the management of the entire chain system, allowing timely presentation of cash flows, logistics flows and information flows of all agricultural resources chain supermarkets across the country in the centralised system on a daily basis, forming an effective basis for the Group's fundamental decisions on resources sharing, resources allocation and strategy implementation.

In an information era, China Agrotech perfected its corporate development with an information-based operation management model. With the set up of China Agrotech's website, electronic trading platform, logistics management system, combined with the Group's SCM and automatic office management system, the Group has established standardised operations and scientific management in its green agricultural resources chain business as implemented in its headquarters.

During the 2003 financial year, the Group further strengthened its agricultural resources distribution business in Fujian and Jiangsu provinces through setting up joint venture companies in selected regions, as well as expanded its business into Hainan province. During the year, the Group acquired enterprises and organisations with established agricultural resources customer networks and plant protection technology and R&D capabilities in Sanming City, Nanping City and Anxi County of Fujian province, which greatly enhanced the Group's market penetration and position in Fujian province. Currently, the Group's agricultural business has established presences in Fujian, Shanxi, Jiangxi, Jiangsu, Hunan and Hainan provinces. During the financial year, the agricultural resources distribution business contributed a turnover of approximately HK\$507,905,000 to the Group, accounted for 76% of the Group's consolidated turnover, and represented a substantial increase of 220% over last year. The operating loss (excluding amortisation of goodwill arising from business acquisitions and computer system development costs) of this business segment was mitigated and amounted to approximately HK\$2,369,000 (2002: operating loss of approximately HK\$7,039,000, excluding amortisation of goodwill arising from business acquisitions). The Group believes that as soon as the foundation matures, the networks in the provinces in which the Group currently operates will be integrated through linking the leading upstream agricultural resources production enterprises with the downstream agricultural resources circulation enterprises and human resources. By then, the Group's agricultural resources circulation channels and networks will be significantly strengthened, resulting in greater operational efficiency so as to generate considerable income and profit for the Group.

Looking ahead, the Group will continue to consolidate channels by way of adopting innovative initiatives and to manage operational risks with scientific management practices, in order to secure its leading position amongst Chinese agricultural resources circulation enterprises in the increasing competitive environment following China's accession to the WTO.



### Plant Protection Technical Services Business

The more stringent environmental protection requirements have hindered the penetration of China's agriculture produces of competitive prices into the global market. Not only in China, but agricultural sectors worldwide are all in an urgent need of safe and highly effective agricultural resources and advanced plant protection technical services to cater for modern agricultural production. Close alliances of agricultural resources sales activities with agricultural technology promotion services are essential even for agricultural resources chain operations. Satisfactory agricultural resources sales could only be driven by effective technical services. In light of enormous business opportunities presented by market demands for plant protection services, the Group started to provide comprehensive plant protection technical services to large-scale farms, orchards and vegetable exporters since 2003. During the year, plant protection technical services generated a revenue of approximately HK\$484,000 for the Group.



Apart from the provision of safe and highly effective agricultural resources, China Agrotech also puts emphasis on the provision of scientific and rational plant growing solutions and the implementation of through-stage plant protection technical services. In order to attract more multi-national agricultural enterprises and corporations with its leading plant protection technologies and professional service, and to establish plant protection strategic alliances extensively, the Group spent HK\$7,539,000 in early 2003 for the joint development with the Plant Protection School of the Fujian Agricultural and Forestry University (福建農林大學植物保護學院) of a distant diagnose system for plant diseases and pests of agriculture produces, which is expected to be completed by the end of 2004.

The provision of through-stage plant protection technical services and the setup of agricultural pests distant diagnose system will effectively extend the value chain of China Agrotech, and will continue to add value to its brand.

### Corporate Strategies and Prospects

Leveraging on the valuable opportunities arising from China's accession to the WTO and coping with the reform of the agricultural resources circulation regime in China and the accompanying market changes, China Agrotech has commenced its business restructuring in 2001 by first developing distribution network of agricultural resources, followed by identifying investment opportunities in wide variety of bio-agricultural products with high production value, enabling the Group to move a step towards diversification in respect of hi-tech products. In addition, in respect of agricultural services, the Group has been proactive in developing plant protection technical services, targeting to provide China's agricultural industry with one-stop solutions of production, circulation and technical services.



Upholding its mission of "Agriculture-oriented with technology coming first", China Agrotech will continue to initiate collaborations with domestic and international authoritative R&D institutes and tertiary education institutes to conduct extensive interdisciplinary scientific projects, to establish the first comprehensive and strong technology alliance in China's agricultural resources sector for the research and development of various bio-agricultural products.

With the adoption of its operational mission of "Prompt service and high integrity", China Agrotech adopted leading brand management practices, and set up a number of agricultural resources warehouse stores with unique features in various provinces and municipals across the nation, laying down the bases of circulation channels and networks covering agricultural resources markets throughout provinces and municipals in China. This serves to achieve the objective of standardising operations in agricultural resources circulation for better market protection, thus promoting positive interactions among production enterprises, circulation enterprises and agricultural producers to achieve an all-win situation in agricultural resources production, agricultural resources circulation and agricultural resources consuming within China Agrotech's network.

Leveraging on its experienced plant protection team and top-tier plant protection technologies and testing facilities, China Agrotech will continue to offer professional, dedicated and focused services to China's modern agricultural producers. Through provision of scientific and rational through-stage plant growth solutions to agricultural producers, China Agrotech is committed to building up the corporate image of "Green Guardian and Plant Protection Pioneer" within the China agricultural resources sector.

With its strong capabilities in technological research and development, top-tier bio-agricultural production base, standardised agricultural resources circulation platform and through-stage plant protection technical services, China Agrotech will excel itself amongst China agricultural resources enterprises, and become a globally competitive China agricultural resources enterprise with sustained growth.

### **Appreciation**

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

**Wu Shaoning**  
*Chairman*

Hong Kong, 27 October 2003