

BUSINESS REVIEW AND OUTLOOK

Overall Results

The period under review was full of challenges and break-throughs for the Group. Other than the steady growth 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 such business has been expanding rapidly since then. For the nine months ended 31st March, 2002, the Group achieved a consolidated turnover of approximately HK\$201,191,000 (2001: HK\$116,789,000) and a consolidated net profit attributable to shareholders of approximately HK\$47,604,000 (2001: HK\$46,515,000), representing an increase of approximately 72% and 2% 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, say, production and sale of PGRs and trading of agricultural resources products, is as follows:

	Production & sale of PGRs		Trading of agricultural resources products		Total	
	Nine months ended 31st March, 2002		Nine months ended 31st March, 2001		Nine months ended 31st March, 2001	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	127,828	111,264	73,363	5,525	201,191	116,789
Gross profit	93,210	85,620	4,641	341	97,851	85,961
Gross profit margin	73%	77%	6%	6%	49%	74%
Profit/(Loss) from operations (note)	57,393	49,983	(1,218)	19	56,175	50,002

Note: Profit from operations for the nine months ended 31st March, 2002 was adjusted by excluding (adding back) mainboard listing expenses of approximately HK\$6,456,000. The Directors considered that such presentation would be more appropriate for a proper appreciation of the Group's business operations.

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. 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.

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 nine months ended 31st March, 2002 was an amount of approximately HK\$127,828,000 derived from the sale of PGRs, representing an increase of 15% as compared to approximately HK\$111,264,000 in the corresponding period of 2001. Profit from operations derived from the sale of PGRs also increased from approximately HK\$49,983,000 in 2001 to approximately HK\$57,393,000 (adjusted, see above note) in 2002, representing an increase of 15%. 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 nine months ended 31st March, 2002, the Group's production volume of PGRs has been augmented to 1,090 tonnes (2001: 932 tonnes), an increase of approximately 17% 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:

	Nine months ended 31st March,			
	2002		2001	
	<i>tonnes</i>	%	<i>tonnes</i>	%
PGR for vegetable	186	17%	179	19%
PGR for fruits	325	30%	347	37%
PGR for rice	211	19%	281	30%
PGR for tobacco	126	12%	125	14%
PGR for flowers	124	11%	—	—
PGR for edible fungi	118	11%	—	—
	<u>1,090</u>	<u>100%</u>	<u>932</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 was completed and has been put into production in the first quarter of 2002.

Trading of Agricultural Resources Products

During year 2001, the Group commenced its business of trading of agricultural resources products by setting up agricultural resources supermarket stores in Fujian Province, Mainland China. 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.

Since 2002, the trading business has been expanded to other provinces, say, Shanxi, Jiangxi, Hunan and Jiangsu Province through cooperating with large local agricultural resources wholesale dealers to establish distribution networks and setting up central warehouses. Besides, the Group has secured province-wide exclusive distribution rights in Mainland China from over 100 domestic and overseas agricultural resources manufacturers.

For the nine months ended 31st March, 2002, the turnover from this business sector was approximately HK\$73,363,000 (excluding the sales of PGRs produced by the Group) (2001: HK\$5,525,000) and the average gross profit margin was approximately 6%. As the business of trading of agricultural resources products was still at the initial expanding stage, preliminary expenses of considerable amounts were invested on store decorations and advertising and promotions, which explains the slight loss recorded in the current period. The Directors are confident that when the Group expands the trading business of agricultural resources products to more provinces in Mainland China and the distribution networks become more consolidated, 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 and distribution networks in selected regions in Mainland China.