



CHINA AGROTECH HOLDINGS LIMITED

浩倫農業科技集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1073)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2006

FINAL RESULTS

The Directors are pleased to announce the audited consolidated final results of China Agrotech Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 30 June 2006, together with the comparative figures for the corresponding period in 2005 as follows:

Consolidated Income Statement

	Note	For the year ended 30 June	
		2006 HK\$'000	2005 HK\$'000 (restated)
Turnover	2	2,286,255	1,640,708
Cost of sales		(2,122,132)	(1,525,180)
Gross profit		164,123	115,528
Other revenues		19,414	1,467
Selling and distribution expenses		(37,618)	(30,412)
General and administrative expenses		(61,703)	(57,811)
Profit from operations	3	84,216	28,772
Finance costs	4	(17,490)	(9,550)
Profit before taxation		66,726	19,222
Taxation	5	(6,048)	(1,486)
Profit for the year		<u>60,678</u>	<u>17,736</u>
Attributable to			
– Equity holders of the Company		61,627	21,511
– Minority interests		(949)	(3,775)
		<u>60,678</u>	<u>17,736</u>
Earnings per share for profit attributable to equity holders of the Company	6		
– Basic		<u>14.62 cents</u>	<u>5.1 cents</u>
– Diluted		<u>14.57 cents</u>	<u>N/A</u>
Consolidated Balance Sheet			
		At 30 June 2006 HK\$'000	At 30 June 2005 HK\$'000 (restated)
NON CURRENT ASSETS			
Goodwill		79,653	60,080
System development costs		11,909	20,160
Other Intangible assets		58,185	73,632
Property, plant and equipment		40,865	57,186
Investment property		25,834	–
Lease premium for land		12,830	12,740
Prepayments and deposits		–	10,974
		<u>229,276</u>	<u>234,772</u>
CURRENT ASSETS			
Inventories		172,729	100,960
Current portion of lease premium for land		340	526
Other receivables, deposits and prepayments		461,185	352,237
Trade and bills receivables	7	218,363	168,049
Financial assets at fair value through profit or loss		631	–
Restricted bank deposits		209,852	114,209
Bank balances and cash		145,802	53,368
Total current assets		<u>1,208,902</u>	<u>789,349</u>

CURRENT LIABILITIES

Current position of interest-bearing and secured loan		(200,559)	(127,084)
Trade and bills payable	8	(674,462)	(432,023)
Accruals and other payables		(127,819)	(113,041)
Due to directors		(332)	(1,087)
Taxation payable		(9,960)	(6,741)
Total current liabilities		(1,013,132)	(679,976)

Net current assets		195,770	109,373
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Total assets less current liabilities		425,046	344,145
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Non-current liabilities

Interest-bearing and secured bank loans		(971)	(2,817)
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NET ASSETS		424,075	341,328
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CAPITAL AND RESERVES

Share capital		42,157	42,157
Reserves		375,605	292,055

Total equity attributable to equity holders of the Company		417,762	334,212
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Minority interests		6,313	7,116
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TOTAL EQUITY		424,075	341,328
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*Notes:***1. Statement of compliance and basis of preparation of the financial statements**

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is included in the annual report to be sent to the shareholders of the Company.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in the financial statements is provided in notes to the financial statements included in the annual report.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the assets and liabilities are stated at their fair values as explained in the accounting policies.

2. Turnover and segment information

The Group is principally engaged in (i) the trading of pesticides, fertilisers and other agricultural products ("trading operation"); (ii) the manufacturing and selling of plant growth regulatory products ("PGR"), pesticides and fertilizers ("manufacturing operation"); (iii) the provision of plant protection technical services ("consultancy operation"); and (iv) trading of non-agricultural resources products ("non-agricultural resources trading operation") in Mainland China.

Turnover represents the net invoiced value of goods sold, after deduction of goods returns and trade discounts; and fee income from services rendered.

An analysis of turnover and segment results by business segment of the Group is as follows:

(i) Year ended 30 June 2006

	Trading operation HK\$'000	Manufacturing operation HK\$'000	Consultancy operation HK\$'000	Non-agricultural resources trading operation HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover						
External sales	1,585,803	204,649	17,768	478,035		2,286,255
Inter-segment sales	15,080	18,916	3,707	12,191	(49,894)	-
	<u>1,600,883</u>	<u>223,565</u>	<u>21,475</u>	<u>490,226</u>	(49,894)	<u>2,286,255</u>
Segment results	<u>17,533</u>	<u>41,584</u>	<u>14,118</u>	<u>6,239</u>		<u>79,474</u>
Interest income						12,184
Unallocated expenses						(7,442)
Finance costs						(17,490)
Taxation						(6,048)
Profit for the year						<u>60,678</u>

(ii) Year ended 30 June 2005 (restated)

	Trading operation HK\$'000	Manufacturing operation HK\$'000	Consultancy operation HK\$'000	Non-agricultural resources trading operation HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover						
External sales	1,177,315	94,587	13,139	355,667		1,640,708
Inter-segment sales	4,923	3,061	-	-	(7,984)	-
	<u>1,182,238</u>	<u>97,648</u>	<u>13,139</u>	<u>355,667</u>	(7,984)	<u>1,640,708</u>
Segment results	<u>4,644</u>	<u>20,363</u>	<u>5,747</u>	<u>1,334</u>		<u>32,088</u>
Interest income						1,247
Unallocated expenses						(4,563)
Finance costs						(9,550)
Taxation						(1,486)
Profit for the year						<u>17,736</u>

The Group's operations and assets are primarily located in Mainland China and all of the Group's turnover is attributable to business conducted in Mainland China. Consequently, no geographical segment analysis is presented.

3. Profit from operations		
Profit from operations is stated after charging and crediting the following items:		
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
After charging:		
Provision for impairment losses of intangible assets		
– Goodwill	3,330	15,164
Amortisation of intangible assets		
– Product development costs	1,755	2,022
– Technical know-how	16,006	12,915
– System development costs	8,846	8,655
Depreciation of property, plant and equipment	10,160	11,541
Net exchange loss	1,174	42
Staff costs, including directors' emoluments	20,607	12,812
Operating lease rentals in respect of		
– land and buildings	2,823	2,353
– other property, plant and equipment	187	28
Amortisation of lease premium for land	539	210
After crediting:		
Interest income	12,184	1,247
Fair value adjustment on investment property	818	–
4. Finance costs		
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense on:		
Bank loans and overdrafts, wholly repayable within 5 years	14,345	8,640
Bills payable	1,520	910
Other loans	1,625	–
	<u>17,490</u>	<u>9,550</u>
5. Taxation		
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mainland China Enterprise Income Tax		
– Current year provision	5,865	3,277
– Under/(over)-provision in prior year	183	(1,791)
	<u>6,048</u>	<u>1,486</u>

The Company is exempted from taxation in the Cayman Islands until 2019.

Mainland China Enterprise Income Tax represents tax charges on the estimated assessable profits of the Mainland China Subsidiaries of the Group. Domestic enterprises of Mainland China are subject to income tax rates ranging from 15% to 33%. Productive foreign investment enterprises established in the special economic zones of Fujian, Mainland China, are subject to preferential Enterprise Income Tax rates ranging from 15% to 24%.

No provision for Hong Kong profits tax has been made as there are no assessable profit (2005: Nil) for the subsidiaries operating in Hong Kong during the year.

There was no material unprovided deferred taxation as at 30 June 2006.

6. Earnings per share	
The calculation of basic earnings per share is based on the consolidated profit attributable to equity holders of the Company of approximately HK\$61,627,000 (2005: HK\$21,511,000) and on the weighted average number of approximately 421,565,000 shares (2005: 421,565,000 shares) in issue during the year.	
The calculation of diluted earnings per share for the year ended 30 June 2006 is based on the consolidated profit attributable to equity holders of the Company of approximately HK\$61,627,000 and on the weighted average number of approximately 423,035,000 shares in issue, after adjusting for the effect of all dilutive potential shares under the Company's share option scheme. The effect of the dilutive potential shares resulting from the exercise of the outstanding options on the average number of shares in issue during the year ended 30 June 2006 was approximately 1,470,000 shares, which were deemed to have been issued at no consideration as if all the outstanding options had been exercised on the date when the options were becoming exercisable.	
No diluted earnings per share for the year ended 30 June 2005 is presented as there were no dilutive potential shares in existence during the year.	

7. Trade and bills receivables	
The Group generally requires its customers to pay a deposit shortly before delivery of merchandise, with the balance of the sales amount payable within credit periods ranging from 90 to 180 days. The aging analysis of trade and bills receivables is as follows:	

	The Group	
	At 30 June 2006	At 30 June 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	104,501	119,081
31 to 60 days	53,276	25,974
61 to 90 days	20,911	13,670
91 to 180 days	20,973	6,682
Over 180 days	22,039	6,005
	<u>221,700</u>	<u>171,412</u>
Less: Provision for bad and doubtful debts	(3,337)	(3,363)
	<u>218,363</u>	<u>168,049</u>

8. Trade and bills payable		
Aging analysis of trade and bills payable is as follows:		
	The Group	
	At 30 June 2006	At 30 June 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	126,160	139,229
31 to 60 days	169,672	67,370
61 to 90 days	94,067	67,147
91 to 180 days	266,231	158,277
Over 180 days	18,332	–
	<u>674,462</u>	<u>432,023</u>

9. Comparative figures	
Certain comparative figures have been reclassified to conform with the current year's presentation.	

DIVIDEND

The Directors have resolved not to recommend the payment of any final dividend for the year ended 30 June 2006 (2005: Nil).

OVERALL RESULTS

For the year ended 30 June 2006, the Group's consolidated turnover was approximately HK\$2,286,255,000 (2005: HK\$1,640,708,000) and net profit attributable to equity holders of the Company was approximately HK\$61,627,000 (2005: HK\$21,511,000), representing a growth of approximately 39% and 186% respectively as compared to those of the last financial year.

During the year ended 30 June 2006, the Group's agricultural resources distribution business achieved remarkable growth as a result of further expansion of market coverage and strengthening of its market position in Jiangsu, Hunan and Shangdong provinces. Besides, the business of plant protection technical services maintained a rapid growth during the year. Moreover, the turnover from manufacturing operation achieved a 116% growth as a result of increase in sale of compound fertiliser products previously developed and the commencement of operation of a new factory in Jiangxi for producing fertilisers.

As the turnover from agricultural resources trading business further boost up while the gross profit margin is only approximately 4.5%, which is relatively much lower than the average gross profit margin level of the manufacturing business of 32%, and that the turnover of the trading business increased by approximately 35% as compared to that of the last financial year and accounted for approximately 69% (2005: approximately 72%) of the Group's consolidated turnover, together with the contribution of trading of non-agricultural resources products during the year with a turnover of approximately HK\$478,035,000 and gross profit margin of only 3%, the overall gross profit margin of the Group was averaged to approximately 7% (2005: approximately 7%). Nevertheless, the overall net profit attributable to equity holders of the Company increased by 186% as compared with that of the last financial year, which is contributed by the satisfactory improvement of various business sectors of the Group in the current year.

A summary of the turnover, gross profit, gross profit margin and segment results by scope of business, say, trading of agricultural resources products ("trading operation"), manufacturing and selling of agricultural resources products (PGRs, pesticides and fertilisers) ("manufacturing operation"), provision of plant protection technical services ("consultancy operation"), and trading of non-agricultural resources products ("non-agricultural resources trading operation") is as follows:

	Trading operation		Manufacturing operation		Consultancy operation		Non-agricultural resources trading operation		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	1,585,803	1,177,315	204,649	94,587	17,768	13,139	478,035	355,667	2,286,255	1,640,708
Gross profit	70,669	59,927	65,997	40,634	13,607	11,176	13,850	3,791	164,123	115,528
Gross profit margin	4.5%	5%	32%	43%	77%	85%	3%	1%	7%	7%
Segment results	17,533	4,644	41,584	20,363	14,118	5,747	6,239	1,334	79,474	32,088

AGRICULTURAL RESOURCES TRADING BUSINESS

During the year under review, the Group's agricultural resources trading business further expanded and penetrated into its existing markets and reached other new markets. Currently, the Group's agricultural resources trading business covered eight provinces, namely, Fujian, Shanxi, Jiangxi, Hunan, Jiangsu, Hainan, Hubei and Shandong, as well as Shanghai city.

During the year, the Group acquired several agricultural resources trading business from local famous agricultural resources enterprises, mainly in Jiangsu, Hunan and Shangdong provinces, so as to further strengthen its market position and coverage.

Moreover, the Group's joint venture entity, which was formed with a provincial level large agricultural resources enterprise in Hunan province achieved a remarkable growth during the year ended 30 June 2006. The joint venture entity contributed a turnover and operating profit of approximately HK\$189 million (2005: HK\$85 million) and HK\$4 million (2005: HK\$4 million) respectively to the Group.

For the year ended 30 June 2006, turnover from the trading business amounted to approximately HK\$1,585,803,000 (2005: HK\$1,177,315,000), representing an increase of approximately 35% from the last financial year and contributed to approximately 69% (2005: 72%) of the consolidated turnover of the Group, demonstrating the continued rapid growth and expansion of the trading business and its role as a core business to the Group.

The trading business is quantity-driven with a relatively low gross profit margin of approximately 4.5% and therefore, requires a considerable high turnover level in order to generate adequate gross profit to cover promotion and advertising expenses and amortisation of development cost of computer system which comprises supply chain management system, cash flow management system and financial information system. Nevertheless, as a result of the continued expansion of the trading business in the financial year under review and the consequent realisation of the effect of economy of scale, the business recorded a remarkable turnover of approximately HK\$1,585,803,000 and achieved an operating profit of approximately HK\$17,533,000 (2005: HK\$4,644,000), an increase of approximately 35% and 278% respectively.

In the years to come, the Group believes the trading business in the existing provinces will be more strengthened, the customer networks will become more mature and enlarged and the synergetic effect will be more pronounced. In the future, the Group will identify suitable provinces and regions for further business expansion and market penetration; secure more product exclusive distribution rights from local and overseas suppliers; and achieve further synergetic effect from the provision of plant protection technical services to customers. As such, the trading business will further contribute to a remarkable profit for the Group in the years to come.

AGRICULTURAL RESOURCES PRODUCTION BUSINESS

In the fertilisers production front, the phosphorous fertiliser production plant in Hubei province contributed a turnover of approximately HK\$22.6 million (2005: HK\$17.1 million) during the year. The Group's compound fertiliser production base which was acquired in the last year and located in Fujian province also contributed a turnover and operating profit of approximately HK\$57.6 million (2005: HK\$13.4 million) and HK\$13.8 million (2005: HK\$2.5 million) respectively to the Group during the year. The Group also established a compound fertiliser manufacturing base in Jiangxi in the last year, which contributed a turnover and operating profit of approximately 53.9 million and 1.3 million respectively to the Group during the year. The fertilisers manufacturing business is expected to further improve in the back of the Group's circulation platform.

In respect of pesticides production, apart from the PGR and BtA which contributed a turnover of approximately HK\$53.5 million and HK\$21.8 million during the year, the Group commenced, since March 2005, the production and launch of a majority of the 28 newly developed pesticides, germicide and miticide acquired in the prior year, which contributed a turnover and operating profit (excluding amortisation of acquisition cost of the intellectual property) of approximately HK\$14.1 million and HK\$3.2 million for the year. It is expected that the sales of these new pesticides will be further improved in the coming years.

For PGR, the turnover and operating profit were approximately HK\$53.5 million (2005: HK\$52.9 million) and HK\$31.8 million (2005: HK\$24.6 million) respectively, representing an increase of approximately 1% and 29% respectively as compared to the last financial year. The increase was mainly due to the change of production and sales strategies for different types of PGR, which proved to be effective, though with an overall decrease in production scale.

For the biological pesticide (BtA), it contributed to a turnover and operation profit (excluding amortisation of acquisition cost of the intellectual property) of approximately HK\$21.8 million (2005: HK\$10.5 million) and HK\$4.3 million (2005: HK\$1.3 million) respectively for the year ended 30 June 2006, such increase in result is due to the same reason as that for PGR.

It is expected that the PGR and BtA sales will be steadily improved upon the stabilisation of the effect of adjustment of sales and production strategy in the upcoming year.

PLANT PROTECTION TECHNICAL SERVICES

The Group's plant protection technical services recorded a service income of approximately HK\$17,768,000 for the year ended 30 June 2006 (2005: HK\$13,139,000), an increase of approximately 35% and contributed an operating profit of approximately HK\$14,118,000 (2005: HK\$5,747,000), demonstrating the rapid growth of the business, in the back of the commencement of wide application of the distant diagnose system for plant diseases and pests of agriculture produces since the last year.

NON-AGRICULTURAL RESOURCES PRODUCTS TRADING BUSINESS

In order to develop the Group into an international enterprise in face of China's accession in the WTO, and to minimise its business risk; as well as to increase the Group's cash flow generating capability so as to obtain better bank financing, the Group commenced export of non-agricultural resources products since the last year. This business also allows the Group to gain import and export experience for future trading of agricultural resources products in the international markets.

Such business contributed a turnover of approximately HK\$478,035,000 (2005: HK\$355,667,000) with a gross profit margin of approximately 3% (2005: 1%).

LIQUIDITY AND FINANCIAL RESOURCES

Financial resources

The Group generally finances its operations with internally generated cashflow and bank facilities for its capital expenditures and other capital requirements.

As at 30 June 2006, the cash and bank balances and restricted bank deposits of approximately HK\$355.7 million included approximately HK\$8.9 million which was denominated in Hong Kong dollars, approximately HK\$341.4 million which was denominated in Renminbi, and approximately HK\$5.4 million which was denominated in US dollars.

With respect to foreign exchange exposure, as the Group's earnings and borrowings are primarily denominated in Renminbi and that the exchange rate between Renminbi and Hong Kong dollar/US dollar was steady during the year under review, it has no significant exposure to foreign exchange rate fluctuations. During the year under review, the Group had not used any financial instruments for hedging purposes.

Borrowings and banking facilities

As at 30 June 2006, the Group had bank borrowings of approximately HK\$201.5 million (denominated in Renminbi), which bore interest at rates ranging from approximately 4.6% to 8.8% per annum, of which approximately HK\$2.9 million, HK\$7.4 million, HK\$1.9 million, 9.7 million and HK\$179.6 million were secured by certain inventory of the Group, certain investment property of a joint venture entity, certain property, plant and equipment of the Group, corporate guarantee provided by a joint venture entity and corporate guarantee provided by certain subsidiaries, respectively. As at 30 June 2006, the Group had bills payable of approximately HK\$431.2 million which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of approximately HK\$209.9 million which was also denominated in Renminbi.

As at 30 June 2006, the Group maintained a gearing ratio of approximately 48%. This is based on the division of bank borrowings by total equity attributable to equity holders of the Company as at 30 June 2006. The Directors considered that the gearing ratio as at 30 June 2006 was healthy, taking into account of the nature and scale of operations of the Group.

Commitments

As at 30 June 2006, the Group had no significant outstanding contracted capital and other commitments. As at 30 June 2006, the Group had operating lease commitments of approximately HK\$5,973,000.

Contingent liabilities

As at 30 June 2006, the Group had no material contingent liabilities.

Remuneration Policies and Share Option Scheme

The Group incurred total salaries and other remunerations (excluding employee share options compensation expenses) of approximately HK\$17.8 million with an average number of about 1,000 staff during the year ended 30 June 2006.

Remuneration packages comprised salary, mandatory provident fund and year-end bonus based on individual merits. A share option scheme (the "Scheme") was adopted by the Company pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31 December 2001. On 1 March 2006, an ordinary resolution was passed at an extraordinary general meeting to refresh the Scheme limit. During the year ended 30 June 2006, options in respect of 56,500,000 Shares of the Company were granted to the relevant participants under the Scheme (2005: no option was granted).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not redeem any of its listed securities during the year ended 30 June 2006. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules ("CG Code") for the year ended 30 June 2006, except for the following major deviations:

1. Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, the roles of Chairman and Chief Executive Officer of the Company have been performed by Mr. Wu Shaoning. This constitutes a deviation from code provision A.2.1 of the CG Code. As continuation is a key factor to the successful implementation of business plans, the Board believes that the roles of Chairman and Chief Executive Officer performed by Mr. Wu Shaoning provide the Group with strong and consistent leadership and are beneficial to the Group especially in planning and execution of business strategies. The Board also believes that the present arrangement is beneficial to the Company and the shareholders as a whole.
2. Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election. All independent non-executive directors of the Company are appointed for a specific term except for Mr. Lam Ming Yung who was not appointed for any specific term but subject to retirement by rotation once every three years in accordance with the Company's Articles of Association.

AUDIT COMMITTEE

The audit committee comprises the three independent non-executive directors of the Company. The audit committee has reviewed with the Company's management, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including review of the unaudited interim accounts and the audited annual accounts of the Company during the year.

REMUNERATION COMMITTEE

The Board of the Company has established a remuneration committee. The remuneration committee, currently comprising independent non-executive directors namely, Mr. Wong Chi Wai (as Chairman) and Mr. Zhang Shaosheng and executive director namely, Mr. Wu Shaoning, is responsible for advising the Board on the remuneration policy and framework of the Company's directors and senior management, as well as review and determine the remuneration packages of directors and senior management with reference to the Company's objectives from time to time.

GENERAL

The Board as of the date of this announcement comprises Mr. Wu Shaoning and Mr. Yang Zhuoya, who are the executive directors of the Company, and Mr. Lam Ming Yung, Mr. Zhang Shaosheng and Mr. Wong Chi Wai, who are the independent non-executive directors of the Company.

On behalf of the Board
Wu Shaoning
Chairman

Hong Kong, 24 October 2006

* For identification purposes only