



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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2005

The Directors of China Agrotech Holdings Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 31st December, 2005 together with the comparative figures for the corresponding period in 2004 as set out below. This interim results announcement has been reviewed by the Company's audit committee.

Consolidated Income Statement (unaudited)

	Note	Six months ended 31st December, 2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	2	1,086,557	500,197
Cost of sales		(1,034,490)	(444,601)
Gross profit		52,067	55,596
Other revenues		4,707	3,044
Selling and distribution expenses		(18,186)	(16,414)
General and administrative expenses		(20,686)	(28,046)
Operating profit		17,902	14,180
Finance costs		(5,983)	(4,118)
Profit before taxation	3	11,919	10,062
Taxation	4	(111)	(76)
Net profit for the period		11,808	9,986
Net profit/(loss) attributable to: Equity holders of the Company		14,315	10,506
Minority interests		(2,507)	(520)
		11,808	9,986
Basic earnings per share for profit attributable to the equity holders of the Company during the period	5	HK3.4 cents	HK2.5 cents

Consolidated Balance Sheet (unaudited)

	Note	At 31st December, 2005 HK\$'000	At 30th June, 2005 HK\$'000 (restated)
NON-CURRENT ASSETS			
System development costs		16,218	20,160
Goodwill		70,647	60,080
Other intangible assets		64,980	73,632
Property, plant and equipment		50,162	62,944
Investment property		24,770	-
Prepayments and deposits		18,005	18,313
CURRENT ASSETS			
Inventories		202,996	100,960
Prepaid lease payments		173	169
Other receivables, deposit and prepayments		369,617	352,237
Trade receivables	6	174,721	168,049
Restricted bank deposits		103,662	114,209
Cash and bank balances		75,594	53,368
Total current assets		926,763	788,992
CURRENT LIABILITIES			
Trade and bills payable	7	(493,024)	(432,023)
Accruals and other payables		(162,888)	(113,041)
Taxation payable		(6,504)	(6,741)
Due to directors		(4,012)	(1,087)
Current portion of interest-bearing and secured bank loans		(133,721)	(127,084)
Total current liabilities		(800,149)	(679,976)
Net current assets		126,614	109,016
Total assets less current liabilities		371,396	344,145
NON-CURRENT LIABILITIES			
Interest-bearing and secured bank loans		(962)	(2,817)
		370,434	341,328
EQUITY			
Share capital		42,157	42,157
Reserves		322,813	292,055
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Minority interests		5,464	7,116
		370,434	341,328

* for identification purpose only

Note:

1. Basis of presentation and principal accounting policies

The interim accounts are prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (as applicable to condensed interim accounts) and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The condensed interim accounts have been prepared under the historical cost convention except for investment property, which is measured at fair value.

The principal accounting policies used in the preparation of these condensed interim accounts are consistent with those used in the Group's annual accounts for the year ended 30th June, 2005, except as described below.

In the current period, the Group has applied, for the first time, a number of new/revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results and financial position for the current or prior accounting periods are prepared and presented:

Share-based payments

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st July, 2005. In relation to share options granted before 1st July, 2005, the Group has not applied HKFRS 2 to share options that were granted after 7th November, 2002 and had vested before 1st July, 2005 in accordance with the relevant transitional provisions of HKFRS 2.

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and carried at cost less accumulated depreciation and any impairment losses. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. In the opinion of the directors, as the land and building components of certain of the Group's leasehold property for self-use cannot be separated, thus such leases are accounted for as land and buildings and measured using the cost model under HKAS 16. This change in accounting policy has been applied retrospectively.

Investment properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise, except where an owner-occupied property became an investment property, the Group applied HKAS 16 "Property, plant and equipment" up to the date of change in use and treated the difference at that date between the carrying amount of the property in accordance with HKAS 16 and its fair value in the same way as a revaluation in accordance with HKAS 16, i.e. the revaluation surplus is credited directly to equity as a reserve movement.

Effects of changes in accounting policies

(i) The effects of changes in the accounting policies described above, which have retrospective effect on the consolidated income statement, are as follows:

	Six months ended 31st December,	
	2005 HK\$'000	2004 HK\$'000
Effect of adopting HKAS 17		
Decrease in depreciation	87	169
Increase in amortisation of prepaid lease payment	(87)	(169)
Total increase/(decrease) in profit	<u>-</u>	<u>-</u>

(ii) The effects of changes in the accounting policies described above, which have retrospective effect on the consolidated balance sheet, are as follows:

	At 31st December, 2005 HK\$'000	At 30th June, 2005 HK\$'000
Effect of adopting HKAS 17		
Decrease in property, plant and equipment	(7,601)	(7,508)
Increase in prepaid lease payments		
– non-current portion	7,428	7,339
– current portion	173	169
	<u>-</u>	<u>-</u>

2. Segment information

a. Primary reporting format-business segments

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

Other operations of the Group mainly comprise the business of investment holding which is not of a sufficient size to be reported separately.

An analysis of the Group's turnover and segment results is as follows:

(i) For the six months ended 31st December, 2005

	Trading operation HK\$'000	Manufacturing operation HK\$'000	Consultancy operation HK\$'000	Non- agricultural resources trading operation HK\$'000	Other operations HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover							
External sales	643,909	104,050	4,559	334,039	-		1,086,557
Inter-segment sales	4,756	6,144	3,061	-	-	(13,961)	-
	<u>648,665</u>	<u>110,194</u>	<u>7,620</u>	<u>334,039</u>	<u>-</u>		<u>1,086,557</u>
Segment results	<u>(7,487)</u>	<u>22,182</u>	<u>1,028</u>	<u>880</u>	<u>(3,349)</u>		<u>13,254</u>
Interest income							4,648
Finance costs							(5,983)
Taxation							(111)
Net profit for the period							<u>11,808</u>

(ii) For the six months ended 31st December, 2004 (restated)

	Trading operation HK\$'000	Manufacturing operation HK\$'000	Consultancy operation HK\$'000	Other operations HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover						
External sales		433,594	60,394	6,209	-	500,197
Inter-segment sales		-	-	-	-	-
		<u>433,594</u>	<u>60,394</u>	<u>6,209</u>	<u>-</u>	<u>500,197</u>
Segment results		<u>(8,523)</u>	<u>19,804</u>	<u>4,252</u>	<u>(1,863)</u>	13,670
Interest income						510
Finance costs						(4,118)
Taxation						(76)
Net profit for the period						<u>9,986</u>

b. Secondary reporting format-geographical segments

The Group's operations are primarily 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 before taxation
Profit before taxation is stated after charging and crediting the following items:

	Six months ended 31st December,	
	2005	2004
	HK\$'000	HK\$'000 (restated)
After charging:–		
Staff costs (including directors' emoluments)	7,663	6,072
Fair value of share-based payments in respect of share options granted to employees	1,443	–
Amortisation of intangible assets		
– System development costs	4,423	4,336
– Goodwill	–	5,357
– Product development costs	2,271	737
– Technical know-how	8,136	5,279
Advertising and promotion expenses	310	4,869
Operating lease rentals of premises and motor vehicles	1,577	1,345
Interest on bank loans and facilities wholly repayable within five years	5,983	4,118
Depreciation of property, plant and equipment	4,673	6,152
Amortisation of prepaid lease payment for leasehold land	87	169
Loss on disposal of property, plant and equipment	127	–
After crediting:–		
Interest income from bank deposits	4,648	510

4. Taxation
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.

Taxation for the current period represented Mainland China enterprise income tax charged on certain subsidiaries which were domestic enterprises of Mainland China engaging in the trading business, at rates ranging from 16.5% to 33%; and on a productive foreign investment enterprise established in the special economic zones of Fujian, Mainland China, at a preferential reduced tax rate of 15%.

No provision for Mainland China enterprise income tax was made for other Mainland China subsidiaries as they were either in tax loss position or exempted from enterprise income tax during the six months ended 31st December, 2005.

There was no material unprovided deferred taxation for both interim periods.

5. Earnings per share

The calculations of basic earnings per share for the six months ended 31st December, 2005 is based on the unaudited consolidated profit attributable to the equity holders of the Company of approximately HK\$14,315,000 (2004: HK\$10,506,000) and the weighted average number of approximately 421,565,000 shares in issue during the six months ended 31st December, 2005 and 2004.

No information on diluted earnings per share is presented because there were no dilutive potential ordinary shares in existence during the six months ended 31st December, 2005 and 2004.

6. Trade 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. Aging analysis of trade receivables is as follows:

	At 31st December, 2005	At 30th June, 2005
	HK\$'000	HK\$'000
0 to 30 days	102,421	119,081
31 to 60 days	20,367	25,974
61 to 90 days	17,284	13,670
91 to 180 days	24,142	6,682
Over 180 days	13,859	6,005
	178,073	171,412
Less: Provision for bad and doubtful debts	(3,352)	(3,363)
	174,721	168,049

7. Trade and bills payable

Aging analysis of trade and bills payable is as follows:

	At 31st December, 2005	At 30th June, 2005
	HK\$'000	HK\$'000
0 to 30 days	145,107	139,229
31 to 60 days	98,433	67,370
61 to 90 days	92,163	67,147
91 to 180 days	157,321	158,277
	493,024	432,023

8. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend for the six months ended 31st December, 2005 (2004: Nil).

BUSINESS REVIEW AND OUTLOOK

Overall Results

For the six months ended 31st December, 2005, the Group's consolidated turnover was approximately HK\$1,086,557,000 (2004: HK\$500,197,000) and net profit attributable to equity holders of the Company was approximately HK\$14,315,000 (2004: HK\$10,506,000), representing a growth of approximately 117% and 36% respectively as compared to the last corresponding financial period.

The increase in consolidated turnover was mainly attributable to the continuous growth of the trading business of agricultural resources products, the establishment of new production base, as well as the contribution to turnover from the trading of non-agricultural resources products.

However, as the agricultural resources trading business only contributed a relatively lower gross profit margin of approximately 3% while the growth in turnover was approximately 49% and represented 59% of the consolidated turnover; and that the trading business of non-agricultural resources products only contributed a gross profit margin of approximately 1%, the overall gross profit margin of the Group was lowered to 5% from 11% in the last corresponding period.

A summary of the turnover, gross profit, gross profit margin and segment results by scope of business, say, trading operation, manufacturing operation, consultancy operation, non-agricultural resources trading operation and other operations is as follows:

	Trading operation		Manufacturing operation		Consultancy operation		Non-agricultural resources trading operation		Other operations		Total	
	Six months ended 31st December, 2005	2004	Six months ended 31st December, 2005	2004	Six months ended 31st December, 2005	2004	Six months ended 31st December, 2005	2004	Six months ended 31st December, 2005	2004	Six months ended 31st December, 2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	643,909	433,594	104,050	60,394	4,559	6,209	334,039	–	–	–	1,086,557	500,197
Gross profit	18,145	17,356	28,786	33,089	2,779	5,151	2,357	–	–	–	52,067	55,596
Gross profit margin	3%	4%	28%	55%	61%	83%	1%	–	–	–	5%	11%
Segment results	(7,487)	(8,523)	22,182	19,804	1,028	4,252	880	–	(3,349)	(1,863)	13,254	13,670

AGRICULTURAL RESOURCES TRADING BUSINESS

For the six months ended 31st December, 2005, turnover from the trading business amounted to approximately HK\$643,909,000 (2004: HK\$433,594,000), representing an increase of approximately 49% from the last financial period and contributed to 59% (2004: 87%) of the consolidated turnover of the Group, demonstrating the rapid growth and increase in market coverage of the trading business and its role as an important contribution to the Group.

The increase in turnover of the trading business during the period was mainly attributable to the increase in market penetration and coverage in Hunan and Shandong provinces through newly established subsidiaries and joint ventures.

The trading business was quantity-driven with a relatively low gross profit margin of approximately 3% (2004: 4%), and therefore, requires a considerable high turnover level in order to generate adequate gross profit to cover promotion and advertising expenses and amortisation of computer system development cost. As a result of the continued expansion of the trading business during the financial period under review, the trading business achieved a remarkable growth in turnover. However, due to the control on the price inflation of agriculture resources products by the government in Mainland China, the gross profit margin of the trading business was lowered and recorded an operating loss of approximately HK\$3,064,000 (excluding amortisation of computer system development costs) (2004: operating profit of approximately HK\$1,170,000, excluding amortisation of goodwill arising from business acquisitions and computer system development costs).

In the years to come, the Group believes the trading business in different provinces will be more strengthened, the customer networks will become more mature and enlarged and the synergetic effect will be more pronounced. As such, the trading business will contribute to a remarkable profit for the Group in the near future.

AGRICULTURAL RESOURCES PRODUCTION BUSINESS

In the fertilisers production front, the phosphorous fertiliser production plant in Hubei province contributed a turnover of approximately HK\$7 million (2004: HK\$5 million) during the period, but was still at a breakeven stage. The Group also acquired a fertiliser manufacturing business from a Fujian manufacturer who is specialised in production of a various kinds of compound fertilisers in October 2004. The compound fertiliser manufacturing business contributed a turnover and operating profit of approximately HK\$29 million and HK\$7 million respectively to the Group during the period. The Group also established a compound fertiliser manufacturing base in Jiangxi in the last year, which contributed a turnover of approximately HK\$22 million during the period, but yet to contribute an operating profit to the Group. 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 PGR and BtA which contributed a turnover of approximately HK\$32 million and HK\$10 million respectively for the period, 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\$4 million and HK\$1 million respectively for the period. Although the gross profit margin is relatively lower with only 22% due to the giving of lower selling price to distributors during initial launching stage in order to gain market share, it is expected that the gross profit margin can be improved to 30% level when the 28 new pesticides, germicide and miticide are recognised by the market.

For PGR, the turnover and operating profit were approximately HK\$32 million (2004: HK\$45 million) and HK\$19 million (2004: HK\$24 million) respectively, representing a decrease of 29% and 21% respectively as compared to the last financial period. The decrease was mainly due to the change of production and sales strategies for different types of PGR, with an overall decrease in production scale.

For the biological pesticide (BtA), it contributed to a turnover and operating profit (excluding amortisation of acquisition cost of the intellectual property) of approximately HK\$10 million (2004: HK\$10 million) and HK\$2.2 million (2004: HK\$1.5 million) respectively for the period.

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

PLANT PROTECTION TECHNICAL SERVICES

The Group's plant protection technical services recorded a service income of approximately HK\$4,559,000 for the six months ended 31st December, 2005 (2004: HK\$6,209,000). The plant protection technical services received sound response from users and such business is expected to generate synergetic effect with the Group's nationwide agricultural resources trading business and achieve rapid growth in the near future.

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 and domestic trading of non-agricultural resources products during 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\$334 million with a gross profit margin of approximately 1% during the period.

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 31st December, 2005, the aggregated cash and bank balances and restricted bank deposits of HK\$179,256,000 included HK\$10,628,000, which was denominated in Hong Kong dollars; HK\$1,195,000 which was denominated in US dollars and HK\$167,433,000 which was denominated in Renminbi.

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 period under review, it has no significant exposure to foreign exchange rate fluctuations. During the period under review, the Group had not used any financial instruments for hedging purposes.

Borrowings and banking facilities

As at 31st December, 2005, the Group had bank borrowings of HK\$134,683,000 which was denominated in Renminbi. As at 31st December, 2005, the Group had bills payable of HK\$336,420,000 which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of the Group of HK\$97,228,000 which was also denominated in Renminbi.

As at 31st December, 2005, the Group maintained a gearing ratio of approximately 37%. This is based on the total amount of bank loans by equity attributable to equity holders of the Company as at 31st December, 2005. The Directors considered that the gearing ratio as at 31st December, 2005 was healthy, taking into account of the scale of operations of the Group.

Commitments

As at 31st December, 2005, the Group had no significant outstanding contracted capital commitments, as well as operating lease commitments of approximately HK\$853,000.

Contingent liabilities

As at 31st December, 2005, the Group had no material contingent liabilities.

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

The Company did not redeem any of its listed securities during the six months ended 31st December, 2005. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 31st December, 2005.

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") throughout the six months ended 31st December 2005, except for the following major deviations:

- 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.
- 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 Mr. Lam Ming Yung, Mr. Zhang Shaosheng and Mr. Wong Chi Wai, 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 of the Group for the six months ended 31st December, 2005.

REMUNERATION COMMITTEE

The Board of the Company has established a remuneration committee. The remuneration committee, currently comprising executive director Mr. Wu Shaoning, and independent non-executive directors Mr. Wong Chi Wai and Mr. Zhang Shaosheng, 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 at 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, 16th March, 2006