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## **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: 01073)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER, 2012**

The board of directors (the “Board”) of China Agrotech Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 31 December, 2012 together with the comparative figures for the corresponding period in 2011 as set out below. This interim results announcement has been reviewed by the Company’s audit committee.

\* *For identification purpose only*

## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		<b>Six months ended</b>	
		<b>31 December,</b>	
		<b>2012</b>	<b>2011</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>	2	<b>2,476,468</b>	2,220,242
Cost of sales		<u>(2,330,048)</u>	<u>(2,082,593)</u>
<b>Gross profit</b>		<b>146,420</b>	137,649
Other revenue and other net income		<b>23,809</b>	39,258
Gain from compensation of shortfall of guaranteed profit arising from an acquisition		<b>150,000</b>	120,000
(Loss)/gain from change in fair value of derivative financial liabilities		<b>(1,312)</b>	21,567
Loss arising from change in fair value less costs to sell of biological assets		<b>(1,793)</b>	(10,277)
Distribution costs		<b>(26,046)</b>	(34,468)
Administrative expenses		<u>(62,879)</u>	<u>(54,993)</u>
<b>Profit from operations</b>		<b>228,199</b>	218,736
Finance costs		<u>(66,323)</u>	<u>(79,244)</u>
<b>Profit before taxation</b>	3	<b>161,876</b>	139,492
Income tax	4	<u>(209)</u>	<u>(5,222)</u>
<b>Profit for the period</b>		<u><b>161,667</b></u>	<u>134,270</u>
<b>Attributable to:</b>			
— Owners of the Company		<b>161,155</b>	133,850
— Non-controlling interests		<u>512</u>	<u>420</u>
<b>Profit for the period</b>		<u><b>161,667</b></u>	<u>134,270</u>
<b>Earnings per share</b>	5		
— Basic		<u><b>HK16.69 cents</b></u>	<u>HK16.88 cents</u>
— Diluted		<u><b>HK16.69 cents</b></u>	<u>HK16.88 cents</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

	<b>Six months ended</b>	
	<b>31 December,</b>	
	<b>2012</b>	<b>2011</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit for the period</b>	<b>161,667</b>	134,270
<b>Other comprehensive income for the period</b>		
Exchange differences on translation of financial statements of subsidiaries in the PRC	<b>42,682</b>	50,570
Reclassification adjustment for exchange difference relating to disposal of subsidiaries in the PRC	—	187
	<u>42,682</u>	<u>50,757</u>
Income tax relating to components of other comprehensive income	—	—
	<u>—</u>	<u>—</u>
<b>Other comprehensive income for the period, net of tax</b>	<b>42,682</b>	50,757
	<u>42,682</u>	<u>50,757</u>
<b>Total comprehensive income for the period</b>	<b>204,349</b>	185,027
	<u>204,349</u>	<u>185,027</u>
<b>Attributable to:</b>		
Owners of the Company	<b>203,837</b>	184,603
Non-controlling interests	<b>512</b>	424
	<u>204,349</u>	<u>185,027</u>
	<u>204,349</u>	<u>185,027</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December, 2012 (Unaudited) <i>HK\$'000</i>	At 30 June, 2012 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
<b>Non-current assets</b>			
Property, plant and equipment		128,675	136,952
Lease premiums for land		11,132	11,218
Biological assets		1,069,112	972,790
Intangible assets		56,445	60,010
Goodwill		85,476	83,941
Available-for-sale financial assets		38,600	37,917
Other deposit		14,923	14,656
		<b>1,404,363</b>	1,317,484
<b>Current assets</b>			
Lease premiums for land		281	276
Inventories		170,111	88,068
Trade and other receivables	6	3,357,276	3,132,773
Trading securities		3,607	3,596
Restricted bank deposits		776,989	819,815
Cash and cash equivalents		171,708	210,640
		<b>4,479,972</b>	4,255,168
<b>Current liabilities</b>			
Trade and other payables	7	(2,374,505)	(2,402,261)
Bank and other loans		(997,825)	(693,523)
Tax payable		(45,317)	(47,476)
Derivative financial liabilities		(12,417)	(19,665)
Promissory notes		–	(193,349)
		<b>(3,430,064)</b>	(3,356,274)
<b>Net current assets</b>		<b>1,049,908</b>	898,894
<b>Total assets less current liabilities</b>		<b>2,454,271</b>	2,216,378

	At 31 December, 2012 (Unaudited) <i>HK\$'000</i>	At 30 June, 2012 (Audited) <i>HK\$'000</i>
<b>Non-current liabilities</b>		
Bank loans	–	(1,388)
Convertible bonds	(571,775)	(552,375)
Deferred tax liabilities	(12,003)	(12,492)
	<u>(583,778)</u>	<u>(566,255)</u>
<b>NET ASSETS</b>	<b><u>1,870,493</u></b>	<b><u>1,650,123</u></b>
<b>CAPITAL AND RESERVES</b>		
Share capital	98,777	94,777
Share premium and reserves	1,750,769	1,542,373
	<u>1,849,546</u>	<u>1,637,150</u>
<b>Total equity attributable to owners of the Company</b>	<b>1,849,546</b>	<b>1,637,150</b>
Non-controlling interests	20,947	12,973
	<u>1,870,493</u>	<u>1,650,123</u>
<b>TOTAL EQUITY</b>	<b><u>1,870,493</u></b>	<b><u>1,650,123</u></b>

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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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 30 June, 2012.

The condensed interim accounts have been prepared under the historical cost convention except where stated otherwise in the accounting policies of the Group’s annual accounts for the year ended 30 June, 2012.

## 2. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in: (i) the trading of fertilizers, pesticides and other agricultural resources products (the “trading operation”); (ii) the manufacturing and selling of pesticides and fertilizers (the “manufacturing operation”); (iii) the provision of plant protection technical services (the “consultancy operation”); (iv) the trading of non-agricultural resources products (“non-agricultural resources trading operation”) and (v) nursing, planting and sales of landscaping seedlings (“seedling operation”) in Mainland China.

Turnover represents the sale value of goods supplied to customers and revenue from provision of services.

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

### (i) For the six months ended 31 December, 2012

	Trading operation HK\$’000	Manu- facturing operation HK\$’000	Consultancy operation HK\$’000	Non- agricultural resources trading operation HK\$’000	Seedling operation HK\$’000	Group HK\$’000
Revenue from external customers	1,969,763	41,248	25,236	294,911	145,310	2,476,468
Inter-segment revenue	-	5,958	-	1,617	-	7,575
Reportable segment revenue	<u>1,969,763</u>	<u>47,206</u>	<u>25,236</u>	<u>296,528</u>	<u>145,310</u>	<u>2,848,043</u>
Reportable segment profit/(loss) before taxation	<u>12,800</u>	<u>(24,174)</u>	<u>22,985</u>	<u>(3,738)</u>	<u>35,957</u>	<u>43,830</u>
Interest income	16,192	188	5	1,677	59	18,121
Finance cost	20,983	3,310	-	7,991	7,988	40,272

#### Reconciliation of reportable segment profit:

Reportable segment profit	43,830
Unallocated gain from compensation of shortfall of guaranteed profit arising from an acquisition	150,000
Unallocated loss from change in fair value of derivative financial liabilities	(1,312)
Unallocated finance cost	(26,051)
Unallocated corporate expenses	(4,591)
Consolidated profit before taxation	<u>161,876</u>

**(ii) For the six months ended 31 December, 2011**

	Trading operation HK\$'000	Manu- facturing operation HK\$'000	Consultancy operation HK\$'000	Non- agricultural resources trading operation HK\$'000	Seedling operation HK\$'000	Group HK\$'000
Revenue from external customers	1,535,919	70,472	10,107	568,426	35,318	2,220,242
Inter-segment revenue	2,501	7,688	–	12,554	–	22,743
Reportable segment revenue	<u>1,538,420</u>	<u>78,160</u>	<u>10,107</u>	<u>580,980</u>	<u>35,318</u>	<u>2,242,985</u>
Reportable segment profit/(loss) before taxation	<u>14,218</u>	<u>(5,832)</u>	<u>8,710</u>	<u>11,867</u>	<u>354</u>	<u>29,317</u>
Interest income	11,438	219	5	2,527	10	14,199
Finance cost	32,540	2,509	–	17,994	–	53,043
<i>Reconciliation of reportable segment profit:</i>						
Reportable segment profit						29,317
Unallocated gain from compensation of shortfall of guaranteed profit arising from an acquisition						120,000
Unallocated gain from change in fair value of derivative financial liabilities						21,567
Unallocated finance cost						(26,201)
Unallocated corporate expenses						<u>(5,191)</u>
Consolidated profit before taxation						<u>139,492</u>

As all the Group's revenue from external customers was generated in Mainland China, no geographical segment analysis is presented.

### 3. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging and crediting the following items:

	<b>Six months ended</b>	
	<b>31 December,</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	<b>HK\$'000</b>
After charging:		
Interest on bank loans and other borrowings wholly repayable within five years	<b>40,272</b>	53,043
Interest on convertible bonds	<b>19,400</b>	20,496
Interest on promissory notes	<b>6,651</b>	5,705
	<hr/>	<hr/>
Total interest expense on financial liabilities not at fair value through profit or loss	<b>66,323</b>	79,244
Staff costs (including directors' emoluments)	<b>16,384</b>	17,240
Amortisation		
— Lease premiums for land	<b>310</b>	181
— Product development costs	<b>1,819</b>	2,062
— Technical know-how	<b>2,805</b>	2,778
Operating lease rentals of premises	<b>5,467</b>	10,488
Depreciation of property, plant and equipment	<b>7,881</b>	7,528
	<hr/>	<hr/>
After crediting:		
Interest income on financial assets not at fair value through profit or loss	<b>18,121</b>	14,199
Gain on disposal of subsidiaries	<b>—</b>	11,547
	<hr/>	<hr/>

### 4. INCOME TAX

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 the estimated assessable profits of the Company's subsidiaries established in the Mainland China. On 16 March, 2007, the National People's Congress approved the Corporate Income Tax of the Mainland China (the "new CIT law"). The new CIT law unifies the corporate income tax for domestic and foreign enterprises at 25% with effect from 1 January, 2008. Entities which are entitled to special incentive may continue to enjoy the given concessions, if applicable.

Except for deferred tax liabilities recognised on acquisition of subsidiaries in respect of fair value of intangible assets identified and recognised, no deferred tax liabilities on dividend have been recognised, as the Company controls the dividend policy of its subsidiaries and it has been determined that the profits earned by the Company's certain PRC subsidiaries for the period from 1 January, 2008 to 31 December, 2012 will not be distributed in the foreseeable future.



## 5. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

### (a) Earnings

	<b>2012</b> <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Earnings for the purpose of basic and diluted earnings per share	<b>161,155</b>	133,850

### (b) Weighted average number of ordinary shares

	<b>Number of shares</b>	
	<b>2012</b> <i>'000</i>	2011 <i>'000</i>
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>965,374</b>	792,961
Effect of dilutive potential shares	—	—
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>965,374</b>	792,961

Convertible bonds and unlisted warrants had anti-dilutive effects on the basic earnings per share for the six months ended 31 December, 2011 and 2012.

## 6. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors and bills receivables with the following ageing analysis based on invoice date as of the end of the reporting period:

	<b>At</b> <b>31 December,</b> <b>2012</b> <i>HK\$'000</i>	At 30 June, 2012 <i>HK\$'000</i>
0-90 days	<b>929,140</b>	948,795
91-180 days	<b>75,325</b>	106,863
181-365 days	<b>86,322</b>	11,455
Over 365 days	<b>6,024</b>	12,595
	<b>1,096,811</b>	1,079,708
<i>Less:</i> allowance for doubtful debts	<b>(12,988)</b>	(12,867)
	<b>1,083,823</b>	1,066,841

Debts are generally due within six months from the date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and creditworthiness of the customers, extend the credit period upon a customer's request.

## 7. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the end of the reporting period:

	At 31 December, 2012 <i>HK\$'000</i>	At 30 June, 2012 <i>HK\$'000</i>
Due within 1 month or on demand	420,927	487,358
Due after 1 month but within 2 months	219,439	382,728
Due after 2 months but within 3 months	255,996	289,806
Due after 3 months but within 6 months	1,030,832	900,073
Due after 6 months	33,798	23,386
	<hr/> <b>1,960,992</b> <hr/>	<hr/> <b>2,083,351</b> <hr/>

## 8. COMPARATIVE FIGURES

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

### INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31 December, 2012 (2011: nil).

## BUSINESS REVIEW AND OUTLOOK

### Overall Results

For the six months ended 31 December, 2012, the Group's consolidated turnover was approximately HK\$2,476,468,000 (2011: HK\$2,220,242,000) and profit attributable to owners of the Company was approximately HK\$161,155,000 (2011: HK\$133,850,000), representing a growth of about 12% and 20% respectively as compared to the last financial period. Net profit, excluding the impact of certain non-cashflow items (i.e. loss arising from change in fair value less costs to sell of biological assets, loss/gain from change in fair value of derivative financial liabilities and notional interest expense on financial liabilities) was approximately HK\$190,311,000 (2011: HK\$148,761,000), representing an increase of about 28%, which was mainly due to the record of a gain from compensation of shortfall of guaranteed profit arising from an acquisition amounted to HK\$150 million during the period as compared to HK\$120 million for the last period.

The Group's businesses can be divided into three categories, namely, (i) agricultural resources operation; (ii) trading of non-agricultural resources products; and (iii) seedling operation. Agricultural resources operation includes manufacturing and selling, purchase and distribution of agricultural resources products, as well as the provision of plant protection and consulting services for the related products. The seedling operation represents nursing, planting and sales of landscaping seedlings.

The increase in consolidated turnover of the Group was mainly due to the increase in trading of agricultural resources products as a result of gradual market resumption and increase in selling prices of fertilizers and pesticides since the last year.

The overall gross profit margin of the Group decreased from 6.2% last period to 5.9% this period due to the extent of increase in purchase costs of various products was greater than the increase in their selling prices in general.

The reportable segment profit of the Group was approximately HK\$43,830,000 (2011: HK\$29,317,000), representing an increase of about 50%. This was mainly due to the increase in operating profit of the seedling operation, which was, however, mitigated by the decrease in operating profit of both agricultural resources operation and non-agricultural resources trading operation during the period.

**Agricultural resources operation and trading of non-agricultural resources products:**

The turnover of the agricultural resources operation and trading of non-agricultural resources products is analysed by product segments as follows:

	Six months ended 31 December,			
	2012	Percentage of the total turnover	2011	Percentage of the total turnover
	Turnover HK\$'000		Turnover HK\$'000	
Agricultural resources operation				
nitrogenous fertilizer	197,791	8%	171,215	8%
phosphorous fertilizer	398,486	17%	274,095	13%
potash fertilizer	551,846	24%	401,653	18%
compound fertilizer	703,199	30%	511,662	23%
pesticides	184,925	8%	257,873	12%
Agricultural resources products (subtotal)	2,036,247	87%	1,616,498	74%
Trading of non-agricultural resources products	294,911	13%	568,426	26%
Total	2,331,158	100%	2,184,924	100%

Aggregate sales volume of fertilizers, including nitrogenous fertilizer, phosphorous fertilizer, potash fertilizer and compound fertilizer, increased from approximately 540,000 tonnes last period to approximately 576,000 tonnes this period. The aggregate turnover of fertilizers for this period was approximately HK\$1.851 billion, representing a growth of about 36% as compared to approximately HK\$1.359 billion last period.

For pesticides, turnover decreased by 28% from approximately HK\$258 million last period to approximately HK\$185 million this period.

Turnover for trading of non-agricultural resources product decreased by 48% from approximately HK\$568 million last period to approximately HK\$295 million this period.

Aggregate gross profit and reportable segment profit before taxation from agricultural resources operation and trading of non-agricultural resources products amounted to approximately HK\$89,662,000 (2011: HK\$119,180,000) and HK\$7,873,000 (2011: HK\$28,963,000) respectively, representing a decrease of approximately 25% and 73% respectively as compared to the last period. Overall gross profit margin from these businesses decreased from approximately 5.5% last period to 3.8% this period. Gross profit of agricultural resources operation decreased from approximately HK\$86.4 million last period to approximately HK\$79.8 million this period, while gross profit of trading of non-agricultural resources products decreased from approximately HK\$32.8 million last period to approximately HK\$9.9 million this period. Such decreases were mainly due to the shrink in gross profit margins of various products and decrease in trading of coal during the period.

### **Agricultural Resources Operation**

#### *(1) Nitrogenous fertilizer*

Being the most commonly used fertilizer, the supply of nitrogenous fertilizers outstrips its demand, characterizing the trading environment as volume-oriented with thin gross profit margin. During the period under review, the trading profit margin was still thin and the Group recorded a gross profit margin of approximately 1.8% (2011: 1.8%). Therefore, in order to better allocate the Group's working capital resources and minimize operational risks, the Group kept lesser trading of nitrogenous fertilizer in recent years and therefore, the sales volume of approximately 85,000 tonnes (2011: 83,000 tonnes) accounted for only 15% of the total sales volume of fertilizers, while turnover increased by 16% to HK\$198 million (2011: HK\$171 million) mainly due to increase in selling price.

#### *(2) Phosphorous fertilizer*

During the period under review, the market demand for phosphorous fertilizers was comparable to that of the last period. The Group leveraged on its experience in the phosphorous fertilizer market and maintain short stock turnover days so as to minimize operational risk. As a result, sales volume of phosphorous fertilizer increased by 6% to approximately 173,000 tonnes (2011: 163,000 tonnes), while turnover increased by 45% to HK\$398 million (2011: HK\$274 million) mainly due to increase in selling price. However, gross profit margin decreased from 4.0% last period to 3.7% this period due to purchase cost increased at a greater extent than selling price.

#### *(3) Potash fertilizer*

During the period under review, the market demand for potash fertilizer increased as compared to that of the last period. The Group continued to leverage on the advantages of central purchase and its own network to expand the operation of potash fertilizer. As a result, sales volume of potash fertilizer for the period increased by 11% to 119,000 tonnes (2011: 107,000 tonnes) while turnover increased by 37% to HK\$552 million (2011: HK\$402 million) mainly due to increase in selling price. However, gross profit margin decreased to approximately 3.5% (2011: 4.2%) due to purchase cost increased at a greater extent than selling price.

(4) *Compound fertilizer*

The Group provides specific compound fertilizer for different crops through its own production or procurement. During the period, the Group continued to optimize the product mix of compound fertilizer products to accommodate market demand. Sales volume increased by 6% from approximately 187,000 tonnes last period to approximately 199,000 tonnes this period, while turnover increased by 37% to approximately HK\$703 million (2011: HK\$512 million) mainly due to increase in selling price. However, gross profit margin decreased from approximately 4.7% last period to approximately 3.6% this period due to purchase cost increased at a greater extent than selling price.

(5) *Pesticides*

For pesticides, the Group has a large variety of high-value-added pesticide products which are developed through collaboration with different research institutes. Those pesticide products are either manufactured by the Group's own plants or through procurement and distribution. Turnover for the period decreased by 28% to approximately HK\$185 million (2011: HK\$258 million) while average gross profit margin of pesticides decreased from approximately 12.3% last period to approximately 9.3% this period due to the increase in purchase cost of trading products and increase in production cost of self-manufactured products during the period.

**Trading of Non-Agricultural Resources Products**

For trading of non-agricultural resources products, the decrease in turnover was mainly due to the decrease in trading of coal during the period. As a result, turnover and gross profit decreased by 48% and 70% to approximately HK\$295 million (2011: HK\$568 million) and HK\$9.9 million (2011: HK\$32.8 million) respectively this period, while operating profit margin decreased from approximately 4.8% last period to approximately 0.9% this period due to increase in purchase cost of commodity products and shrink in gross margin, which also resulted in a segment loss of HK\$3.7 million during the period.

**Seedling operation:**

The Group completed the acquisition of a landscaping seedling enterprise on 1 November, 2010. The enterprise, namely, Shanxi Astro-wood, currently operates a total of six seedling plantation bases in Shanxi and Beijing for the nursing, planting and sale of rare landscaping seedlings in the PRC. The Group also developed a new seedling plantation base in Fujian province during the period. During the period, the seedling operation contributed a turnover and net profit of approximately HK\$145.3 million (2011: HK\$35.3 million) and HK\$37.8 million (2011: HK\$10.6 million) respectively to the Group (excluding the loss arising from change in fair value less costs to sell of biological assets). Such improvements were due to the success in the strategy of adjusting the seedlings product mix during the period. On the other hand, as the seedling business of Shanxi Astro-wood failed to achieve the target profit for the years ended 30 June, 2012 and 2011 as stipulated in the sale and purchase agreement for such acquisition, one of vendors, being the guarantor for the target profit, was obliged to pay the Company an amount of HK\$150 million and HK\$120 million for the respective financial years which was recorded by the Company as an unallocated other income ("Gain from compensation of shortfall of guaranteed profit arising from an acquisition") during the periods.

## **Corporate Strategies and Prospects**

In the recently announced No. 1 Document of the Central Government of Year 2013, the PRC government continued its policy on deepening the agricultural reform, increasing farmers' income and stepping up its efforts to address the "three rural (rural areas, farmers and agriculture) issues". In particular, the No. 1 Document emphasized the speeding up of development of scaled and modernized agriculture operations and improvement of the development capability of rural areas, which provides the Group with a favorable environment for development in the coming years.

On the other hand, in view of the uncertainties of the worldwide economic environment arising from debt crises of some European countries and effectiveness of economic stimulation policies of the United States, the Group will continue to strengthen its risk management and will take a prudent approach in the hope of steering clear of adversities in the coming year. The Group will also closely review its business model in order to reinforce its core competitiveness by consolidating existing businesses while setting new development direction.

Looking forward, in addition to the on-going pursuit of its centralized purchase and distribution policy and optimization of product mix, the Group will actively strengthen strategic cooperation with upstream brandname suppliers to further explore quality resources and thereby increasing its stability and sustainability. As to the seedling operation, the Group will continue adjusting the seedling products mix and develop new seedling plantation bases in order to further improve the performance of the seedling operation.

Furthermore, the Group is continuously seeking investment opportunities, with a view to diversifying the Group's agriculture business, enlarging the Group's asset base and expanding its source of income. We are optimistic about the long-term development of the Group and will better position ourselves to take on the challenges and opportunities arising in the year to come.

## **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 31 December, 2012, cash and cash equivalents and restricted bank deposits of approximately HK\$948,697,000 included HK\$639,000 which was denominated in Hong Kong dollars, HK\$16,036,000 which was denominated in US/Euro dollars and HK\$932,022,000 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 rates between Renminbi and Hong Kong dollar/US dollar remained 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.

## **Indebtedness and Banking Facilities**

As at 31 December, 2012, the Group had bank and other borrowings of approximately HK\$997,825,000 (approximately HK\$901,883,000 was denominated in Renminbi and approximately HK\$95,942,000 was denominated in US/Euro dollars) bearing interest at rates ranging from approximately 3.2% to 11% per annum. As at 31 December, 2012, the Group had bills payable of approximately HK\$1.824 billion which was secured by pledged bank deposits of approximately HK\$762 million.

As at 31 December, 2012, the Group had (i) convertible bonds (due in November 2015) with outstanding principal amount of HK\$623 million which was denominated in Hong Kong dollars and non-interest bearing; and (ii) convertible bonds (due in January 2016) with outstanding principal amount of RMB70 million which was denominated in Renminbi and bore a yield-on-maturity/redemption of 6% per annum on a compound basis.

As at 31 December, 2012, the Group's gearing ratio is approximately 85%. This is based on the division of the total amount of bank and others loans and convertible bonds (liability components) by total equity attributable to owners of the Company as at 31 December, 2012. The Directors, taking into account of the nature and scale of operations and capital structure of the Group, considered that the gearing ratio as at 31 December, 2012 was healthy.

## **Securities in Issue**

On 12 October, 2012, pursuant to the sale and purchase agreement dated 29 October, 2010 in relation to the acquisition of the entire interests of Fast Base Holdings Limited and its subsidiaries, 40,000,000 consideration shares were issued by the Company.

As at 31 December, 2012, there were 987,765,216 ordinary shares in issue and potential ordinary shares arising from (i) the convertible bonds (due in November 2015) in an aggregate outstanding principal amount of HK\$623,000,000 at the conversion price of HK\$1.00 per share (subject to adjustments); (ii) the convertible bonds (due in January 2016) in an aggregate outstanding accreted principal amount of approximately HK\$91,379,000 (being original principal of HK\$81,680,000 plus accrued interest of HK\$9,699,000) at the reset conversion price of HK\$0.70 per share (subject to adjustments); and (iii) unlisted warrants (to be expired in January 2016) conferring rights to subscribe for 60,000,000 shares at the subscription price of HK\$1.20 per share.

Save as disclosed above, there was no movement in the issued share capital of the Company during the six months ended 31 December, 2012.

## **Commitments**

As at 31 December, 2012, the Group had no significant outstanding contracted capital commitments, and the operating lease commitments was approximately HK\$94.9 million of which approximately HK\$47.4 million is in respect of operating leases of seedling plantation bases with remaining lease terms ranging from 9 to 47 years.

## **Contingent Liabilities**

As at 31 December, 2012, the Group had no material contingent liabilities.

## **Remuneration Policies**

The Group incurred total salaries and other remunerations (excluding employee share-based compensation expense) of approximately HK\$16.4 million with an average number of about 1,000 staff during the six months ended 31 December, 2012.

Remuneration packages comprised salary, mandatory provident fund and year-end bonus based on individual merits.

## **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 31 December, 2012. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 31 December, 2012.

## **CORPORATE GOVERNANCE CODE**

The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 31 December, 2012, except for the following 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.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to other essential business engagements, Mr. Zhang Shaosheng, being an independent non-executive director of the Company, did not attend the annual general meeting of the Company held on 7 December, 2012.



## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company had made specific enquiry with all Directors and all of them confirmed that they have complied with the Model Code throughout the six months ended 31 December, 2012.

## **REVIEW OF ACCOUNTS**

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 internal control and financial reporting matters including review of the unaudited interim accounts of the Group for the six months ended 31 December, 2012.

## **GENERAL**

The Board as of the date of this announcement comprises Mr. Wu Shaoning and Ms. Chen Xiao Fang, who are the executive directors of the Company, and Mr. Zhang Shaosheng, Mr. Wong Kin Tak and Mr. Li Yik Sang, who are the independent non-executive directors of the Company.

On behalf of the Board  
**China Agrotech Holdings Limited**  
**Wu Shaoning**  
*Chairman*

Hong Kong, 28 February, 2013