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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)

**FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 30 JUNE 2013**

FINAL RESULTS

The board of directors (the “Board”) of China Agrotech Holdings Limited (the “Company”) is pleased to announce the audited consolidated final results of the Company and its subsidiaries (collectively the “Group”) for the financial year ended 30 June 2013, together with the comparative figures for the previous financial year as follows:

* *For identification purposes only*

Consolidated Income Statement

	<i>Note</i>	Year ended 30 June	
		2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Turnover	2	4,811,020	4,987,245
Cost of sales		<u>(4,533,809)</u>	<u>(4,719,802)</u>
Gross profit		277,211	267,443
Other revenue and other net income		69,529	65,102
Gain from compensation of shortfall of guaranteed profit arising from an acquisition		150,000	120,000
Gain from change in fair value of derivative financial liabilities		6,091	24,917
Loss arising from change in fair value less costs to sell of biological assets		(13,633)	(7,543)
Distribution costs		(54,852)	(59,236)
Administrative expenses		(125,271)	(107,055)
Impairment loss on trade receivables		(33,057)	(12,867)
Loss on disposal of subsidiaries, net		–	(6,661)
Profit from operations		276,018	284,100
Finance costs		<u>(130,997)</u>	<u>(143,480)</u>
Profit before taxation	3	145,021	140,620
Income tax	4	<u>10,313</u>	<u>(5,132)</u>
Profit for the year		<u>155,334</u>	<u>135,488</u>
Attributable to:			
— Owners of the Company		154,347	137,052
— Non-controlling interests		987	(1,564)
Profit for the year		<u>155,334</u>	<u>135,488</u>
Earnings per share	6		
— Basic		<u>HK15.76 cents</u>	<u>HK16.12 cents</u>
— Diluted		<u>HK15.76 cents</u>	<u>HK16.12 cents</u>

Consolidated Statement of Comprehensive Income

	Year ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Profit for the year	155,334	135,488
Other comprehensive income for the year		
Exchange differences on translation of financial statements of subsidiaries in the PRC	80,799	24,495
Reclassification adjustment for exchange difference relating to disposal of subsidiaries in the PRC	—	(625)
	80,799	23,870
Income tax relating to components of other comprehensive income	—	—
Other comprehensive income for the year, net of tax	80,799	23,870
Total comprehensive income for the year	236,133	159,358
Attributable to:		
Owners of the Company	234,580	160,922
Non-controlling interests	1,553	(1,564)
	236,133	159,358

Consolidated Statement of Financial Position

		At 30 June	
		2013	2012
	Note	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		127,506	136,952
Lease premiums for land		11,190	11,218
Biological assets		1,043,773	972,790
Intangible assets		52,606	60,010
Goodwill		86,837	83,941
Available-for-sale financial assets		39,207	37,917
Other deposit		–	14,656
		<u>1,361,119</u>	<u>1,317,484</u>
Current assets			
Lease premiums for land		286	276
Inventories		87,210	88,068
Trade and other receivables	7	3,298,159	3,132,773
Trading securities		3,677	3,596
Restricted bank deposits		828,038	819,815
Cash and cash equivalents		98,037	210,640
		<u>4,315,407</u>	<u>4,255,168</u>
Current liabilities			
Trade and other payables	8	(2,125,790)	(2,402,261)
Bank and other loans		(1,007,524)	(693,523)
Tax payable		(32,491)	(47,476)
Derivative financial liabilities		(5,014)	(19,665)
Promissory notes		–	(193,349)
		<u>(3,170,819)</u>	<u>(3,356,274)</u>
Net current assets		<u>1,144,588</u>	<u>898,894</u>
Total assets less current liabilities		<u>2,505,707</u>	<u>2,216,378</u>
Non-current liabilities			
Bank loans		(1,033)	(1,388)
Convertible bonds		(585,811)	(552,375)
Deferred tax liabilities		(11,466)	(12,492)
		<u>(598,310)</u>	<u>(566,255)</u>
NET ASSETS		<u>1,907,397</u>	<u>1,650,123</u>
CAPITAL AND RESERVES			
Share capital		99,377	94,777
Share premium and reserves		1,785,913	1,542,373
Total equity attributable to owners of the Company		<u>1,885,290</u>	<u>1,637,150</u>
Non-controlling interests		22,107	12,973
TOTAL EQUITY		<u>1,907,397</u>	<u>1,650,123</u>

Notes:

1. Statement of compliance and basis of preparation of the financial statements

These 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 disclosure requirements of the Hong Kong Companies Ordinance. These 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 (the “Listing Rules”). A summary of the significant accounting policies adopted by the Group is included in the Notes to the Financial Statements (the “Notes”) section of the annual report to be sent to the shareholders of the Company.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. The Notes provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

The measurement basis used in the preparation of the financial statements is the historical cost basis except where stated otherwise in the accounting policies.

2. Turnover and segment information

The principal activities of the Group are (i) trading of fertilizers, pesticides and other agricultural resources products (“trading operation”); (ii) manufacturing and selling of pesticides and fertilizers (“manufacturing operation”); (iii) provision of plant protection technical services (“consultancy operation”); (iv) 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 year ended 30 June 2013

	Trading operation HK\$'000	Manu- facturing operation HK\$'000	Consultancy operation HK\$'000	Non- agricultural resources trading operation HK\$'000	Seedling operation HK\$'000	Total HK\$'000
Revenue from external customers	3,765,759	185,645	38,297	603,127	218,192	4,811,020
Inter-segment revenue	5,446	7,322	-	-	-	12,768
Reportable segment revenue	<u>3,771,205</u>	<u>192,967</u>	<u>38,297</u>	<u>603,127</u>	<u>218,192</u>	<u>4,823,788</u>
Reportable segment profit/(loss) before taxation	<u>32,814</u>	<u>(32,228)</u>	<u>34,843</u>	<u>(11,715)</u>	<u>19,836</u>	<u>43,550</u>
Interest income	31,306	258	6	2,618	64	34,252
Finance costs	48,122	6,845	-	14,460	16,482	85,909
<i>Reconciliation of reportable segment profit:</i>						
Reportable segment profit						43,550
Unallocated gain from compensation of shortfall of guaranteed profit arising from an acquisition						150,000
Unallocated gain from change in fair value of derivative financial liabilities						6,091
Unallocated finance cost						(45,088)
Unallocated corporate expenses						(9,532)
Consolidated profit before taxation						<u>145,021</u>

(ii) For the year ended 30 June 2012

	Trading operation <i>HK\$'000</i>	Manu- facturing operation <i>HK\$'000</i>	Consultancy operation <i>HK\$'000</i>	Non- agricultural resources trading operation <i>HK\$'000</i>	Seedling operation <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from external customers	3,516,561	247,913	25,373	1,142,476	54,922	4,987,245
Inter-segment revenue	<u>6,708</u>	<u>16,691</u>	<u>–</u>	<u>18,576</u>	<u>–</u>	<u>41,975</u>
Reportable segment revenue	<u>3,523,269</u>	<u>264,604</u>	<u>25,373</u>	<u>1,161,052</u>	<u>54,922</u>	<u>5,029,220</u>
Reportable segment profit/(loss) before taxation	<u>48,461</u>	<u>(9,792)</u>	<u>22,166</u>	<u>(3,480)</u>	<u>(910)</u>	<u>56,445</u>
Interest income	23,834	476	9	975	152	25,446
Finance costs	61,320	6,032	–	25,155	–	92,507
<i>Reconciliation of reportable segment profit:</i>						
Reportable segment profit						56,445
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						24,917
Unallocated finance cost						(50,973)
Unallocated corporate expenses						<u>(9,769)</u>
Consolidated profit before taxation						<u>140,620</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 arrived at after charging/(crediting) the following items:

	Year ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Interest on bank loans and other borrowings wholly repayable within five years	85,909	92,507
Interest on convertible bonds	38,436	39,640
Interest on promissory notes	6,652	11,333
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Total interest expense on financial liabilities not at fair value through profit or loss	130,997	143,480
Staff costs, including directors' emoluments [#]	37,873	36,483
Depreciation [#]	15,936	15,460
Amortisation [#]		
— lease premiums for land	449	442
— intangible assets	9,329	9,479
Cost of inventories [#]	4,533,809	4,719,802
Impairment loss on trade receivables	33,057	12,867
Auditor's remuneration		
— audit services of the current year	950	1,050
— under-provision for audit services of the last year	—	250
Loss on disposal of subsidiaries, net	—	6,661
Loss on disposal of property, plant and equipment	4,790	702
Operating lease charges: minimum lease payments for land and buildings [#]	11,540	16,835
Interest income on financial assets not at fair value through profit or loss	(34,252)	(25,446)
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[#] Cost of inventories includes approximately HK\$20,501,000 (2012: HK\$17,024,000) relating to staff costs, depreciation, amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above.

4. Income tax

	Year ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Current tax:		
— Hong Kong profits tax	—	—
— PRC Enterprise Income Tax	3,718	12,741
Over provision in respect of prior years:		
— PRC Enterprise Income Tax	(12,596)	(6,198)
Deferred tax:		
Credit to profit or loss	(1,435)	(1,411)
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	(10,313)	5,132
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The Company is exempted from taxation in the Cayman Islands until 2019.

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits arising in Hong Kong during the years ended 30 June 2013 and 2012.

The PRC enterprise income tax has been provided at the rate of 25% (2012: 25%).

Except for deferred tax liabilities recognised on acquisition of subsidiaries in prior year 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 30 June 2013 will not be distributed in the foreseeable future.

5. Dividend

The Board has resolved not to recommend the payment of any final dividend for the year ended 30 June 2013 (2012: Nil).

6. 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

	Year ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Earnings for the purpose of basic and diluted earnings per share	<u>154,347</u>	<u>137,052</u>

(b) Weighted average number of ordinary shares

	Number of shares	
	2013 '000	2012 '000
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	<u>979,404</u>	<u>850,295</u>

Convertible bonds and unlisted warrants had anti-dilutive effects on the basic earnings per share for the years ended 30 June 2012 and 2013.

Share options had anti-dilutive effects on the basic earnings per share for the year ended 30 June 2012.

7. Trade and other receivables

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

	At 30 June	
	2013	2012
	HK\$'000	HK\$'000
0–90 days	933,824	948,795
91–180 days	130,126	106,863
181–365 days	35,964	11,455
Over 365 days	30,231	12,595
	<u>1,130,145</u>	<u>1,079,708</u>
Less: allowance for doubtful debts	(33,057)	(12,867)
	<u><u>1,097,088</u></u>	<u><u>1,066,841</u></u>

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.

8. 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 30 June	
	2013	2012
	HK\$'000	HK\$'000
0–30 days	367,670	487,358
31–60 days	245,761	382,728
61–90 days	185,333	289,806
91–180 days	985,830	900,073
Over 180 days	38,371	23,386
	<u>1,822,965</u>	<u>2,083,351</u>

9. Comparative figures

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

CHAIRMAN'S STATEMENT

I am pleased to present to the shareholders the annual results of China Agrotech Holdings Limited ("China Agrotech" or the "Company") and its subsidiaries (collectively the "Group") for the year ended 30 June 2013 for their consideration.

Turnover and Profit

For the year ended 30 June 2013, the consolidated turnover of the Group was approximately HK\$4,811,020,000 (2012: HK\$4,987,245,000), representing a decline of approximately 4%; and the profit attributable to owners of the Company was approximately HK\$154,347,000 (2012: HK\$137,052,000), representing an increase of approximately 13%. Excluding the effect of certain non-cashflow items (i.e. loss arising from change in fair value less costs to sell of biological assets, gain from change in fair value of derivative financial liabilities and notional interest expense on financial liabilities), net profit was approximately HK\$206,977,000 (2012: HK\$170,651,000), representing an increase of approximately 21%, which was mainly due to the improvement of the seedling operation during the year and the record of a gain from compensation of shortfall of guaranteed profit arising from an acquisition amounted to HK\$150 million for the year as compared to the gain from compensation of HK\$120 million for the last year.

Business Review

During the year, the operating environment was still considerably affected by uncertainties of both domestic and worldwide economic situations. Nevertheless, leveraging on its extensive experience in management of its agricultural resources operation, and also prompt and decisive adjustment to its market strategies for seedling operation, the Group's annual turnover maintained at a high level of about HK\$5 billion. Moreover, thanks to the Group's successful investment strategy and improvement of the seedling operation, net profit (after excluding certain non-cashflow items) for the year increased by 21% to approximately HK\$207 million.

For the year under review, the Group's agricultural resources distribution network demonstrated the effect of consolidation under the fluctuated business environment and contributed to a record high of turnover from agricultural resources operation. During the year, selling prices of fertilizers were comparable to the last year, nevertheless, the Group closely monitored the market trend of pricing and adjusted its product mix to accommodate the market demand. As a result, aggregate sales volume of fertilizers reached 1.37 million tonnes (2012: 1.19 million tonnes), representing an increase of about 15%. However, the average gross profit margin of agricultural resources products that made up 83% of consolidated turnover decreased from approximately 5.7% last year to approximately 4.6% this year due to the general shrink in profit margins of agricultural resources products, especially those of pesticides during the year. Consequently, the segment profit of agricultural resources operation decreased by about 42% from HK\$60.8 million last year to HK\$35.4 million this year.

As to individual agricultural resources product, due to the thin margin of nitrogenous fertilizer and further shrink in gross profit margin of those pesticides with low profit margins during the year, the Group kept lesser sales in these categories so as to shun its downside risk. For phosphorous fertilizer, potash fertilizer and compound fertilizer, as the Group has actively developed its supply and sales channels over the years and its distribution network generated further economic benefits, sales of these products have been on a steady rise, and has demonstrated a supportive effect to the agricultural resources operation under difficult business environment.

For the non-agricultural resources trading operation, due to the decrease in profit margins of commodities and resources products under difficult business environment during the year, the Group reduced such trading and nevertheless, recorded a considerable decrease in gross profit from about HK\$29.6 million last year to about HK\$9.4 million this year with gross profit margin shrink from approximately 2.6% last year to approximately 1.6% this year and suffered a segment loss of about HK\$11.7 million

On the other hand, the seedling operation demonstrated a turnaround and recorded a segment profit of about HK\$19.8 million this year as compared to a segment loss of about HK\$0.9 million last year. This is contributed by the success in the strategy of adjusting product mix through development of new plantation bases with different variety of seedling products in recent years.

Although the gross profits from both of agricultural resources operation and non-agricultural resources trading operation decreased as a result of shrink in gross profit margins, such effect was compensated by the remarkable increase in gross profit from seedling operation as a result of substantial increase in sale of seedlings. Hence, the Group recorded a gross profit of approximately HK\$277 million (2012: HK\$267 million), representing an increase of approximately 4% over the last year.

Corporate Strategies and Prospects

According to the 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 agricultural 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, as well as the recent tightening lending policies of the PRC banking industry, 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 in respect of its agricultural resources operation, the Group will actively strengthen strategic cooperation with upstream brandname suppliers to further explore quality resources thereby increasing its stability and sustainability. As to the seedling operation, the Group will continue adjusting the seedlings product 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. In particular, the Group entered into an agreement for the acquisition of 32% equity interest of a PRC enterprise engaging in propagation and sales of seed potatoes and trading of fresh potatoes in the PRC, the transaction of which is expected to be completed by end of October 2013. 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.

Appreciation

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

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Results

For the year ended 30 June 2013, the Group's consolidated turnover was approximately HK\$4,811,020,000 (2012: HK\$4,987,245,000) and profit attributable to owners of the Company was approximately HK\$154,347,000 (2012: HK\$137,052,000), representing a decline of about 4% and a growth of about 13% respectively as compared to the last year. 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, gain from change in fair value of derivative financial liabilities and notional interest expense on financial liabilities), was approximately HK\$206,977,000 (2012: HK\$170,651,000), representing an increase of about 21%, which was mainly due to the improvement of the seedling operation during the year and the record of a gain from compensation of shortfall of guaranteed profit arising from an acquisition amounted to HK\$150,000,000 for the year as compared to the gain from compensation of HK\$120,000,000 for the last year.

The Group's business 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 the manufacturing and selling, purchase and distribution of agricultural resources products, as well as the provision of plant protection and consultancy services for the related products. The seedling operation represents nursing, planting and sales of landscaping seedlings.

The decrease in consolidated turnover of the Group for the year was mainly due to the decrease in trading of pesticides with low profit margins, as well as non-agricultural resources products such as coal and industrial chemicals as a result of shrink in gross profit margins of these products.

The overall gross profit margin of the Group increased from approximately 5.4% last year to 5.8% this year. This was mainly due to the increase in sales of seedling products which have much higher profit margins than both agricultural resources products and non-agricultural resources products, which compensated the effect of decrease in gross profit margins of products of both agricultural resources operation and non-agricultural resources trading operation.

The aggregate reportable segment profit of the Group was approximately HK\$43,550,000 (2012: HK\$56,445,000) representing a decrease of about 23%. This was mainly due to the considerable decrease in segment profit of agricultural resources operation under difficult business environment during the year, though mitigated by the effect of increase in segment profit of seedling operation.

Agricultural resources operation:

The turnover of the agricultural resources operation is analyzed by product segments as follows:

	2013		2012	
	Turnover	Percentage	Turnover	Percentage
	HK\$'000	of the total	HK\$'000	of the total
		turnover		turnover
Agricultural resources operation				
nitrogenous fertilizer	402,770	10%	378,184	10%
phosphorous fertilizer	717,394	18%	629,669	17%
potash fertilizer	907,253	23%	725,082	19%
compound fertilizer	1,551,475	39%	1,276,694	34%
pesticides	410,809	10%	780,218	20%
Total	<u>3,989,701</u>	<u>100%</u>	<u>3,789,847</u>	<u>100%</u>

Aggregate sales volume of fertilizers, including nitrogenous fertilizer, phosphorous fertilizer, potash fertilizer and compound fertilizer, increased by about 15% from approximately 1,190,000 tonnes last year to approximately 1,370,000 tonnes this year. The aggregate turnover of fertilizers for this year was approximately HK\$3.58 billion, representing an increase of about 19% as compared to approximately HK\$3.01 billion last year. Gross profit margin of fertilizers decreased from an average of 4.7% last year to 4.2% this year.

For pesticides, due to the decrease in trading of pesticides sourced outside with relatively lower profit margins, turnover decreased from approximately HK\$780 million last year to approximately HK\$411 million this year, representing a sharp decrease of about 47%. Gross profit margin of pesticides decreased from an average of 9.7% last year to 8.2% this year due to general shrink of product margins.

Gross profit of agricultural resources operation amounted to approximately HK\$182.4 million (2012: HK\$216.4 million), representing a decrease of approximately 16% as compared to the last year. Overall gross profit margin of agricultural resources operation decreased from approximately 5.7% last year to 4.6% this year, which was mainly due to the shrink in profit margin of pesticides during the year. Gross profit of fertilizers increased from approximately HK\$141.0 million last year to approximately HK\$148.7 million this year, while gross profit of pesticides decreased from approximately HK\$75.4 million last year to approximately HK\$33.7 million this year. As a result, segment profit of agricultural resources operation decreased from approximately HK\$60.8 million last year to approximately HK\$35.4 million this year.

Trading of non-agricultural resources products:

For the trading of non-agricultural resources products, the decrease in turnover was mainly due to the decrease in trading of coal and industrial chemicals. In view of the uncertainties of the worldwide economic environment and shrink in profit margins of commodities and resources products, the Group reduced such trading in order to minimize risk. As a result, turnover decreased by about 47% to approximately HK\$0.60 billion (2012: HK\$1.14 billion) and gross profit decreased by about 68% to approximately HK\$9.4 million (2012: HK\$29.6 million) this year, while gross profit margin decreased from approximately 2.6% last year to 1.6% this year. Hence, the trading of non-agricultural resources products recorded a segment loss of approximately HK\$11.7 million for the year (2012: loss of HK\$3.5 million).

Seedling operation:

The Group completed the acquisition of a landscaping seedling enterprise in 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 year. During the year, the seedling operation contributed a turnover and net profit of approximately HK\$218.2 million (2012: HK\$54.9 million) and HK\$33.5 million (2012: HK\$6.6 million) respectively to the Group (excluding loss arising from change in fair value less costs to sell of biological assets). Such increases were mainly due to the success in the strategy of adjusting the seedlings product mix during the year.

On the other hand, according to the sale and purchase agreement for the acquisition of the seedling enterprise, i.e. Present Sino Limited and its subsidiaries (“Present Sino Group”, of which Shanxi Astro-wood is the principal operating subsidiary), as detailed in the Company’s circular dated 25 September 2010, one of the vendors (the “Guarantor”) had undertaken to the Company that (a) if the audited consolidated net profit after tax and extraordinary items of Present Sino Group for the year ended 30 June 2011 were less than HK\$120,000,000, he shall pay to the Company an amount equal to the profit shortfall (being the shortfall between HK\$120,000,000 and the audited net profit of Present Sino Group, or HK\$120,000,000 in case of net loss) on a dollar-to-dollar basis; and (b) if the audited consolidated net profit after tax and extraordinary items of Present Sino Group for the year ended 30 June 2012 were less than HK\$150,000,000, he shall pay to the Company an amount equal to the profit shortfall (being the shortfall between HK\$150,000,000 and the audited net profit of Present Sino Group, or HK\$150,000,000 in case of net loss) on a dollar-to-dollar basis.

As Present Sino Group recorded an audited net loss of approximately HK\$88,940,000 for the year ended 30 June 2011, the Guarantor was obliged to pay the Company a compensation amounted to HK\$120,000,000, which was recorded by the Company as an unallocated other income (“Gain from compensation of shortfall of guaranteed profit arising from an acquisition”) for the year ended 30 June 2012. The reason for the net loss for the year ended 30 June 2011 was mainly due to the one-off loss on disposal of all biological assets of a plantation base amounted to approximately HK\$121,569,000.

For the year ended 30 June 2012, due to the decrease in sales of whitebark pines as compared with the year ended 30 June 2011 as described above and the loss arising from change in fair value less costs to sell of biological assets of approximately HK\$7,543,000, Present Sino Group recorded an audited net loss of approximately HK\$1,864,000. Accordingly, the Guarantor is obliged to pay the Company a compensation amounted to HK\$150,000,000, which was recorded by the Company as an unallocated other income (“Gain from compensation of shortfall of guaranteed profit arising from an acquisition”) for the year ended 30 June 2013.

Looking forward, the Group will continue the strategies of adjusting the seedlings product mix and developing new plantation bases in order to further improve the performance of the seedling operation.

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 2013, cash and cash equivalents and restricted bank deposits of approximately HK\$926,075,000 included HK\$23,044,000 which was denominated in HK/US/Euro dollars and HK\$903,031,000 which was denominated in Renminbi.

With respect to foreign exchange exposure, as the Group’s earnings and borrowings are primarily denominated in Renminbi and the exchange rates between Renminbi and Hong Kong/US dollar remained 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.

Indebtedness and Banking Facilities

As at 30 June 2013, the Group had bank and other borrowings of approximately HK\$1,008,557,000 (approximately HK\$906,227,000 was denominated in Renminbi and approximately HK\$102,330,000 was denominated in US/Euro dollars) bearing interest at rates ranging from approximately 1% to 12% per annum. As at 30 June 2013, the Group had bills payable of approximately HK\$1.722 billion which was secured by pledged bank deposits of approximately HK\$737 million.

As at 30 June 2013, the Group had (i) convertible bonds (due in November 2015) with outstanding principal amount of HK\$617 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 30 June 2013, the Group's gearing ratio was approximately 85%. This was based on the division of the total amount of bank and other loans and convertible bonds (liability components) by total equity attributable to owners of the Company as at 30 June 2013. 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 30 June 2013 was reasonable.

Securities in Issue

During the year:

1. 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.
2. the convertible bonds (due in November 2015) with an aggregate principal amount of HK\$6,000,000 were converted into 6,000,000 shares of the Company at the conversion price of HK\$1.00 each.

As at 30 June 2013, there were 993,765,216 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\$617,000,000 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\$94,084,000 (being original principal of HK\$81,680,000 plus accrued interest of HK\$12,404,000) 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 year ended 30 June 2013.

Commitments

As at 30 June 2013, the Group had no significant outstanding contracted capital commitments.

Contingent Liabilities

As at 30 June 2013, the Group had no material contingent liabilities.

Remuneration Policies and Share Option Scheme

The Group incurred total salaries and other remunerations of approximately HK\$37.9 million with an average number of about 1,000 staff during the year ended 30 June 2013.

Remuneration packages comprise salary, mandatory provident fund and year-end bonus based on individual merits. During the year, a new 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 19 June 2013. During the year ended 30 June 2013, no share option was granted to the relevant participants under the Scheme (2012: no share option was granted under the old share option scheme which had expired by effluxion of time on 30 December 2011).

EVENTS AFTER THE REPORTING PERIOD

On 18 June 2013, China Ecotech Limited, an indirect wholly-owned subsidiary of the Company, as the Purchaser and the vendors entered into an equity transfer agreement (the “Agreement”) in relation to the acquisition of 32% equity interest (the “Sale Equity Interest”) of Guangdong Jiuhoa Potatoes Industry Company Limited (“Guangdong Jiuhoa”). Pursuant to the Agreement, China Ecotech Limited agreed to acquire from the vendors the Sale Equity Interest at a cash consideration of RMB25 million. Upon completion, the Group will be interested in the Sale Equity Interest, representing 32% of the equity interest of Guangdong Jiuhoa which will be treated as a joint venture and accounted for using equity method by the Group. Guangdong Jiuhoa and its subsidiaries are principally engaged in the propagation and sale of seed potatoes and trading of fresh potatoes in the PRC.

The entering into the Agreement constituted a discloseable transaction of the Company under the Listing Rules. The Agreement and the transactions contemplated thereunder are expected to be completed by end of October 2013, the details of which is set out in the announcement of the Company dated 18 June 2013.

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 2013. Neither the Company nor any of its subsidiaries purchased or sold any of the Company’s listed securities during the year.

CORPORATE GOVERNANCE CODE

The Company has, throughout the year ended 30 June 2013, complied with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules, 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 its 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 and the extraordinary general meeting of the Company held on 7 December 2012 and 19 June 2013 respectively.

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. The Company had made specific enquiry with all Directors and all of them confirmed that they have complied with the Model Code throughout the year ended 30 June 2013.

REVIEW OF ACCOUNTS

The Audit Committee comprises the three independent non-executive directors of the Company. The audited consolidated financial statements of the Company for the year ended 30 June 2013 have been reviewed by the Audit Committee.

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, 26 September 2013