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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 2009

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 2009, together with the comparative figures for the previous financial year as follows:

Consolidated Income Statement

	Note	For the year ended 30 June	
		2009 HK\$'000	2008 HK\$'000
Turnover	2	3,178,420	2,894,984
Cost of sales		(2,966,047)	(2,608,179)
Gross profit		212,373	286,805
Valuation gains/(losses) on investment properties		595	(9,594)
Other income		44,767	41,999
Distribution costs		(76,757)	(98,335)
Administrative expenses		(57,650)	(73,792)
Other expenses		(9,790)	(1,222)
Write down of inventories		(24,510)	–
Loss on disposals of subsidiaries		(12,226)	–
Profit from operations		76,802	145,861
Finance costs		(51,069)	(43,803)
Profit before taxation	3	25,733	102,058
Income tax	4	(13,816)	(15,788)
Profit for the year		11,917	86,270
Attributable to:			
– Equity shareholders of the Company		11,067	82,423
– Minority interests		850	3,847
Profit for the year		11,917	86,270
Earnings per share	6		
– Basic		HK2.26 cents	HK16.83 cents
– Diluted		HK2.26 cents	HK16.51 cents

* For identification purpose only

Consolidated Balance Sheet

	<i>Note</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		82,676	53,439
Investment properties		20,557	25,726
Lease premiums for land		8,538	10,263
Intangible assets		118,798	146,301
		<u>230,569</u>	<u>235,729</u>
CURRENT ASSETS			
Lease premiums for land		240	317
Inventories		147,882	321,869
Trade and other receivables	7	1,732,201	1,388,413
Trading securities		2,989	1,165
Restricted bank deposits		305,706	211,416
Cash and bank balances		112,621	192,433
		<u>2,301,639</u>	<u>2,115,613</u>
CURRENT LIABILITIES			
Trade and other payables	8	(1,482,729)	(1,235,700)
Bank loans		(304,433)	(388,091)
Tax payable		(37,603)	(30,954)
		<u>(1,824,765)</u>	<u>(1,654,745)</u>
Net current assets		<u>476,874</u>	<u>460,868</u>
NET ASSETS		<u>707,443</u>	<u>696,597</u>
CAPITAL AND RESERVES			
Share capital		48,977	48,977
Reserves		638,207	629,973
Total equity attributable to equity shareholders of the Company		687,184	678,950
Minority interests		20,259	17,647
TOTAL EQUITY		<u>707,443</u>	<u>696,597</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. A summary of the significant accounting policies adopted by the Group is included in the annual report to be sent to the shareholders of the Company.

The HKICPA has issued 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 accounting period of the Group. The application of the new amendments and interpretations, which are effective for the Group’s financial year beginning on 1 July 2008, had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior adjustment is required. The Group has not early applied any new and revised standard, amendments or interpretation which have been issued but are not yet effective for the current accounting year.

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

2. Turnover and segment information

The Group is principally engaged in (i) the trading of fertilizers, pesticides and other agricultural products (“trading operation”); (ii) the manufacturing and sales of plant growth regulatory products (“PGR”), pesticides and fertilizers (“manufacturing operation”); (iii) the provision of plant protection technical services (“consultancy operation”); and (iv) the trading of non-agricultural resources products (“non-agricultural resources trading 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) Year ended 30 June 2009

	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>	Elimination <i>HK\$'000</i>	The Group <i>HK\$'000</i>
Turnover						
Revenue from external customers	2,280,175	236,586	18,900	642,759		3,178,420
Inter-segment revenue	26,030	20,721	335	90,813	(137,899)	–
	<u>2,306,205</u>	<u>257,307</u>	<u>19,235</u>	<u>733,572</u>	(137,899)	<u>3,178,420</u>
Segment results	<u>25,031</u>	<u>21,674</u>	<u>9,790</u>	<u>11,045</u>		67,540
Valuation gains on investment properties						595
Interest income						16,466
Unallocated corporate operating income						–
Unallocated corporate operating expenses						<u>(7,799)</u>
Profit from operations						76,802
Finance costs						<u>(51,069)</u>
Profit before taxation						25,733
Income tax						<u>(13,816)</u>
Profit for the year						<u>11,917</u>

(ii) Year ended 30 June 2008

	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>	Elimination <i>HK\$'000</i>	The Group <i>HK\$'000</i>
Turnover						
Revenue from external customers	1,769,988	267,639	30,069	827,288		2,894,984
Inter-segment revenue	13,551	35,437	3,152	30,066	(82,206)	–
	<u>1,783,539</u>	<u>303,076</u>	<u>33,221</u>	<u>857,354</u>	(82,206)	<u>2,894,984</u>
Segment results	<u>58,657</u>	<u>39,208</u>	<u>23,505</u>	<u>20,188</u>		141,558
Valuation losses on investment properties						(9,594)
Interest income						22,330
Unallocated corporate operating income						–
Unallocated corporate operating expenses						(8,433)
Profit from operations						145,861
Finance costs						(43,803)
Profit before taxation						102,058
Income tax						(15,788)
Profit for the year						<u>86,270</u>

As almost all the Group's operating activities are carried out 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:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Interest on bank loans and other borrowings wholly repayable, not by instalment, within five years	51,069	43,803
Staff costs, including directors' emoluments [#]	29,465	28,054
Depreciation [#]	5,478	9,017
Valuation (gains)/losses on investment properties	(595)	9,594
Amortisation [#]		
– lease premiums for land	306	221
– intangible assets	12,414	22,240
Cost of inventories [#]	2,966,047	2,608,179
Write down of inventories	24,510	–
Impairment loss on		
– property, plant and equipment*	137	–
– intangible assets*	798	–
– trade receivables*	8,855	1,222
Loss on disposals of jointly-controlled entities	–	165
Auditor's remuneration	1,350	1,500
Loss on disposals of subsidiaries	12,226	–
Loss on disposal of intangible assets	–	130
Loss on disposal of property, plant and equipment	2,363	433
Net foreign exchange loss	–	3,219
Operating leases charges: minimum lease payments for land and buildings [#]	4,312	3,113
Write off of advances to suppliers	–	5,045
Interest income	<u>(16,466)</u>	<u>(22,330)</u>

[#] *Cost of inventories includes approximately HK\$11,125,000 (2008: HK\$13,327,000) relating to staff costs, depreciation, amortisation expenses and operating leases charges, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.*

* *The impairment losses have been included in other expenses in the consolidated income statement.*

4. Income tax

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Current Tax		
– Hong Kong Profits Tax	–	–
– PRC Enterprise Income Tax for the year	13,816	15,788
	<u>13,816</u>	<u>15,788</u>

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

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced the corporate profit tax rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009. Hong Kong Profits Tax was not provided for in the financial statements as the Group has no estimated assessable profits arising in Hong Kong during the years ended 30 June 2009 and 2008.

On 16 March 2007, the People's Republic of China (the "PRC") promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, PRC Enterprise Income Tax rate was changed to 25% from 1 January 2008 onwards.

Pursuant to the new PRC Corporate Income Tax Law which took effect from 1 January 2008, a 10% withholding tax was levied on dividends declared to foreign enterprise investors from the PRC effective 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign enterprise investors.

On 22 February 2008, Caishui (2008) No. 1 was promulgated by the PRC tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at 31 December 2007 determined based on the relevant PRC tax laws and regulations are exempted from the withholding tax.

No deferred tax liabilities have been recognised, as the Company controls the dividend policy of its subsidiaries and it has been determined that it is probable that certain of the profits earned by the Company's PRC subsidiaries for the year from 1 January 2008 to 30 June 2009 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 2009 (2008: Nil).

6. Earnings per share

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

(a) *Profit attributable to ordinary equity shareholders of the Company*

	2009	2008
	HK\$'000	HK\$'000
Earnings used in calculating basic and diluted earnings per share (profit attributable to equity shareholders of the Company)	11,067	82,423

(b) *Weighted average numbers of ordinary shares*

	Number of shares	
	2009	2008
	'000	'000
Weighted average number of ordinary shares used in calculating basic earnings per share	489,767	489,767
Effect of dilutive potential shares		
– share options	194	419
– warrants	–	9,159
Weighted average number of ordinary shares used in calculating diluted earnings per share	489,961	499,345

7. Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivables with the following ageing analysis as of the balance sheet date:

	The Group	
	At 30 June	
	2009	2008
	HK\$'000	HK\$'000
Within credit period	613,963	352,159
Amounts past due		
– Within 3 months	34,048	20,060
– More than 3 months	34,584	40,970
	682,595	413,189
<i>Less:</i> allowance for doubtful debts	(8,855)	(7,449)
	673,740	405,740

Debts are generally due within three to 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 customers' requests.

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 balance sheet date:

	The Group	
	At 30 June	
	2009	2008
	HK\$'000	HK\$'000
Due within 1 month or on demand	550,445	289,640
Due after 1 month but within 2 months	482,832	187,464
Due after 2 months but within 3 months	37,134	169,344
Due after 3 months but within 6 months	218,374	349,786
Due after 6 months	23,576	28,508
	1,312,361	1,024,742

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 2009 for their consideration.

Turnover and Profits

For the year ended 30 June 2009, the consolidated turnover of the Group was approximately HK\$3,178,420,000 (2008: HK\$2,894,984,000), representing a growth of approximately 10%; and the profit attributable to equity shareholders of the Company was approximately HK\$11,067,000 (2008: HK\$82,423,000), representing a decrease of approximately 87%. Excluding the effect from the valuation gains/(losses) on investment properties and write-down of inventories, net profit was approximately HK\$34,982,000 (2008: HK\$92,017,000), representing a decrease of approximately 62%.

Business Review

The combined impact of the global financial turmoil and the sharp fall in commodity prices explained for a very difficult operating environment during the year under review. Leveraging on its extensive experience in management and marketing, China Agrotech managed to capitalize on the opportunities arising in the market during the first half of the year and then switched to a prudent operation mode during the second half. As a result, annual turnover reached HK\$3.18 billion, representing a moderate growth of around 10% over the previous year. However, market factors impacted the Group's performance with an obvious fall in gross margins averaging at approximately 6.7% (2008: approximately 9.9%). China Agrotech survived the dramatic change in the market and consolidated its footing.

Agricultural resources industries, both at home and abroad, fell victim to the financial crisis that emerged since the third quarter of 2008. During the first half of 2009, the overcapacity of fertilizers coupled with the weak demand gave rise to a further shrinkage of the market and, in turn, a falling trend in product prices. Under such harsh operating environment, some overstocking and cash-strapped competitors were eliminated.

To place viability as its top priority, China Agrotech decisively adjusted its strategy by minimizing inventory level, promoting sales at thin margin and increasing liquidity, and eventually weathered a tough year. During the financial year under review, thanks to the successful implementation of the centralized purchase and distribution strategy, the Group's distribution network demonstrated the effect of consolidation under the difficult environment and contributed to the steady growth of the Group's turnover. During the year, as the prices of agricultural resources products in general saw substantial fall, sales promotion with thin margins became our prime target. Amid the price fluctuations, the Group was flexible in pricing with a view to shortening stock turnover and reaping fast profits. As a result, aggregate sales volume of fertilizers increased by approximately 20% to 1.06 million tonnes (2008: 0.88 million tonnes). Given the margin squeeze, the rise in turnover co-existed with the inevitable fall in gross margin. During the year under review, the Group recorded a gross profit of approximately HK\$212 million (2008: approximately HK\$287 million), representing a decline of approximately 26% over the previous year. Overall gross profit margin also

fell from approximately 9.9% the last year to approximately 6.7% this year. Average gross profit margin of agricultural resources products that made up 80% of total turnover fell from approximately 10.7% the last year to approximately 7.3% this year. The decline in overall gross profit was a major cause to the significant fall of net profit attributable to shareholders for the year.

The Group has initiated the modification of its sales strategy in relation to individual products since 2008 when the PRC government launched the macro-economic austerity measures. For nitrogenous fertilizer, owing to its fluctuation in prices and thin margin, the Group reduced sales in this category 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 the rise. Their contributions to turnover rose significantly as well.

Corporate Strategies and Prospects

Despite prices of various fertilizers are currently at a relatively low level, price trend for next year depends on a number of factors which include the speed of the global economic recovery and the demand for foodstuff. However, the PRC government has been working 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, in order to halt the falling trend of fertilizer prices, the central government once took such concrete measures as raising the export tax rebates. More importantly, the State Council has proposed the establishment of a national fertilizer reserve as well as devised long-term policies to support backbone enterprises in the fertilizer industries stockpiling ammonium phosphate and urea. All these prove to benefit the agricultural resources enterprises to a large extent.

Notwithstanding the signs that the global economy and the agricultural resources market have shown marked improvement over the months, the Group continues to strengthen its risk management and will take a prudent approach in the hope of steering clear of adversities. Besides, overcapacity has prompted a gradual consolidation in the domestic fertilizer industries. The Group also takes this opportunity to effect a restructuring 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 thereby increasing its stability and sustainability. 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 most sincere thanks to all of 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 2009, the Group's consolidated turnover was approximately HK\$3,178,420,000 (2008: HK\$2,894,984,000) and net profit attributable to equity shareholders of the Company was approximately HK\$11,067,000 (2008: HK\$82,423,000), representing a growth of about 10% and a decline of about 87% respectively as compared to those of the previous financial year. Net profit, excluding the impact from the valuation gains/(losses) on investment properties and write-down of inventories, was approximately 34,982,000 (2008: HK\$92,017,000), representing a decrease of 62%.

The Group's business can be divided into two categories, namely agricultural resources operation and trading of non-agricultural resources products. 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 turnover of the agricultural resources operation and trading of non-agricultural resources products is analysed by product segments as follows:

	2009		2008	
	Turnover <i>HK\$'000</i>	Percentage of the total turnover	Turnover <i>HK\$'000</i>	Percentage of the total turnover
Agricultural resources operation				
nitrogenous fertilizer	416,646	13%	677,032	23%
phosphorous fertilizer	422,243	13%	299,614	10%
potash fertilizer	466,553	15%	202,186	7%
compound fertilizer	827,317	26%	519,988	18%
pesticides	402,902	13%	368,876	13%
Agricultural resources products (subtotal)	2,535,661	80%	2,067,696	71%
Trading of non-agricultural resources products	642,759	20%	827,288	29%
Total	3,178,420	100%	2,894,984	100%

Aggregate sales volume of fertilizers, including nitrogenous fertilizer, phosphorous fertilizer, potash fertilizer and compound fertilizer, increased by about 20% from approximately 880,000 tonnes last year to approximately 1,060,000 tonnes this year. The aggregate turnover of fertilizers for this year was approximately HK\$2.133 billion, representing a growth of about 26% as compared to approximately HK\$1.699 billion last year.

For pesticides, turnover increased by approximately 9% from approximately HK\$369 million last year to approximately HK\$403 million this year.

Turnover for the trading of non-agricultural resources products decreased from approximately HK\$827 million last year to approximately HK\$643 million this year.

Gross profit for the year amounted to approximately HK\$212,373,000 and net profit (excluding the impact from the valuation gains/(losses) on investment properties and write-down of inventories) was approximately HK\$34,982,000, representing a decline of approximately 26% and 62% respectively as compared to those of the previous year. Gross profit margin in general decreased from approximately 9.9% last year to approximately 6.7% this year. The overall drop of gross profit margin was mainly attributable to the rapid drop in market prices of agricultural resources products during the year as a consequence of the outbreak of worldwide financial crises in the third quarter of 2008.

Agricultural Resources Operation

(1) Nitrogenous fertilizer

Being the most commonly used fertilizer, the supply of nitrogenous fertilizer outstrips its demand, characterizing the trading environment as volume-oriented with thin gross profit margins. During the year under review, the trading profit margin was even thinner in the market and the Group recorded a gross profit margin of approximately 2.8% (2008: 3.7%). Therefore, in order to better allocate the Group's working capital resources and minimize operational risks, the Group reduced the trading of nitrogenous fertilizer and therefore, the sales volume decreased to approximately 230,000 tonnes (2008: 360,000 tonnes) while turnover dropped by 38% to HK\$417 million (2008: HK\$677 million).

(2) Phosphorous fertilizer

Although the gradual increase in the production capacity of phosphorous fertilizer in the PRC has basically met the market demand, the supply of phosphorous fertilizer is becoming scarce. The Group leveraged on the advantage of having its own phosphorous fertilizer plant and adjusted the product mix of phosphorous fertilizer in response to market demand. As a result, the Group was able to boost its sales volume of phosphorous fertilizer to approximately 330,000 tonnes (2008: 220,000 tonnes), push the turnover to considerably rise by 41% to HK\$422 million (2008: HK\$300 million). However, the gross profit margin decreased from approximately 12.7% last year to approximately 7.5% this year due to the drop in market price of agricultural resources products during the year.

(3) Potash fertilizer

Being a scarce resource, more than 70% of potash fertilizer in the PRC is imported. During the year, the Group continued to leverage on the advantage of centralised purchase and its own network to continue the expansion of the operation of potash fertilizer, especially those from Russia. As the market price gradually drop during the year, the Group adopted its strategy of minimizing storage to avoid operational risks. Hence, sales volume of potash fertilizer for this year reached approximately 130,000

tonnes, increased by approximately 90% as compared with last year, while turnover dramatically increased by 131% to approximately HK\$467 million (2008: HK\$202 million). However, gross profit margin decreased from approximately 7.6% last year to approximately 5.1% this year.

(4) *Compound fertilizer*

The Group provides specific compound fertilizer for different crops through production from its own plant and through procurement. During the year, the Group increased the production and distribution of compound fertilizer products to accommodate market demand. Sales volume increased from approximately 230,000 tonnes last year to approximately 370,000 tonnes this year. Turnover increased by approximately 59% to approximately HK\$827 million (2008: HK\$520 million), while gross profit margin decreased from approximately 12.6% last year to approximately 8.2% this year due to market factors.

(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 supplied to the market are either manufactured by the Group's own plants or through procurement and distribution. During the year, turnover increased by approximately 9% to approximately HK\$403 million (2008: HK\$369 million) because of the Group's increase in sales of lower margin products. Coupled with the effect of drop in market prices, the average gross profit margin decreased from approximately 21.1% last year to approximately 12.4% this year.

Trading of Non-Agricultural Resources Products

For the trading of non-agricultural resources products, orders were reduced due to worldwide economic downturn, hence turnover and gross profit decreased by 22% to approximately HK\$643 million (2008: HK\$827 million) and 58% to HK\$27.2 million (2008: HK\$65.3 million) respectively. Gross profit margin also decreased from approximately 7.9% last year to approximately 4.2% this year due to rapid drop in market prices of commodities and resources products during the year.

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 2009, cash and bank balances and restricted bank deposits were approximately HK\$418,327,000 of which approximately HK\$3,475,000, approximately HK\$412,187,000, and approximately HK\$2,665,000 were denominated in Hong Kong dollars, Renminbi and US dollars respectively.

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 dollar/US dollar remained steady during the year under review, its exposure to foreign exchange rate fluctuations is insignificant. During the year under review, the Group had not used any financial instruments for hedging purposes.

Borrowings and banking facilities

As at 30 June 2009, the Group had bank borrowings of approximately HK\$304,433,000 (approximately HK\$300,488,000 was denominated in Renminbi and approximately HK\$3,945,000 was denominated in US dollars) bearing interest at rates ranging from 3.1% to 8.96% per annum, of which approximately HK\$53,880,000 was secured by certain trade receivables, inventories and investment properties of the Group, and approximately HK\$250,553,000 was guaranteed by a director of the Company and third parties and properties put up by certain minority shareholders.

At as 30 June 2009, the Group had bills payable of approximately HK\$1,019 million which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of approximately HK\$306 million which was also denominated in Renminbi.

As at 30 June 2009, the Group's gearing ratio remained at approximately 44%. This was based on the division of bank borrowings by total equity attributable to equity shareholders of the Company as at 30 June 2009. The Directors, taking into account of nature and scale of operations of the Group, considered that the gearing ratio as at 30 June 2009 was healthy.

Commitments

As at 30 June 2009, the Group had no outstanding contracted capital commitments. As at 30 June 2009, the Group had operating lease commitments of approximately HK\$15,424,000.

Contingent liabilities

As at 30 June 2009, the Group had no material contingent liabilities.

Remuneration Policies and Share Option Scheme

The Group incurred expenditure on salaries and other remunerations of approximately HK\$29 million in total with an average workforce of about 1,000 during the year ended 30 June 2009.

Remuneration packages comprise salary, mandatory provident fund and year-end bonus based on individual merits. A share option scheme (the "Scheme") was adopted by the Company pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31 December 2001. The Scheme limit was refreshed pursuant to a resolution passed at the extraordinary general meeting of the Company held on 11 February 2009. During the year ended 30 June 2009, no option was granted (2008: nil). On 27 July 2009, options in respect of 48,970,000 shares of the Company were granted to the relevant participants under the Scheme.

POST BALANCE SHEET EVENTS

- (i) On 4 June 2009, the Company entered into a share placing agreement with Excalibur Securities Limited (the “Placing Agent”) whereby the Company would place, through the Placing Agent, a maximum of 42,900,000 new shares of the Company to independent placees at a price of HK\$0.70 per placing share of the Company. The placing of new shares in an aggregate principal amount of HK\$30,030,000 was completed on 10 August 2009. The net proceeds from the placing of approximately HK\$29.5 million will be used as general working capital of the Group.

On 4 June 2009, the Company entered into a convertible bonds placing agreement with the Placing Agent whereby the Company would place and the Placing Agent would procure independent subscribers for subscription of the 3% coupon convertible bonds of the Company (“Convertible Bonds”) in an aggregate maximum principal amount of HK\$29,970,000. The holders of the Convertible Bonds are entitled to exercise the conversion rights attaching to the Convertible Bonds, in whole or in part, at the conversion price of HK\$0.90 per share at any time within 2 years commencing from the date of issue of the Convertible Bonds, to convert the Convertible Bonds into ordinary shares of the Company. The placing of Convertible Bonds in an aggregate principal amount of HK\$29,970,000 was completed on 24 July 2009. The net proceeds from the placing of approximately HK\$29.8 million will be used as general working capital of the Group. The Convertible Bonds are not listed on the Stock Exchange or any other stock exchanges.

Details of the placing of new shares and Convertible Bonds are set out in the Company’s announcement dated 5 June 2009.

- (ii) New shares of the Company were issued in August and September 2009 upon exercise of subscription rights attaching to 58,900,000 unlisted warrants to subscribe for 58,900,000 new shares of the Company at an initial subscription price of HK\$1.0 per share. The remaining 25,100,000 unexercised warrants were expired and lapsed on 7 September 2009.

Other post balance sheet events are detailed in the “Notes to the financial statements” section of the annual report to be sent to the shareholders of the Company.

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 2009. Neither the Company nor any of its subsidiaries purchased or sold any of the Company’s listed securities during the year.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“CG Code”) for the year ended 30 June 2009, except for the following major deviations:

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

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors of the Company. The audit committee has reviewed with the Company’s management, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including review of the unaudited interim accounts and the audited annual accounts of the Company during the year. The audited annual financial statements of the Company for the year ended 30 June 2009 have been reviewed by the audit committee.

REMUNERATION COMMITTEE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard set out in the Model Code regarding securities transactions by directors during the year ended 30 June 2009.

GENERAL

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

On behalf of the Board
Wu Shaoning
Chairman

Hong Kong, 23 October 2009