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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 2010**

#### **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 2010, together with the comparative figures for the previous financial year as follows:

\* For identification purpose only

**Consolidated Income Statement**  
For the year ended 30 June 2010

	<i>Note</i>	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>Turnover</b>	2	<b>3,362,029</b>	3,178,420
Cost of sales		<u>(3,183,660)</u>	<u>(2,966,047)</u>
<b>Gross profit</b>		<b>178,369</b>	212,373
Valuation gains on investment properties		–	595
Other revenue and other net income		<b>39,619</b>	44,767
Distribution costs		<b>(48,764)</b>	(76,757)
Administrative expenses		<b>(73,374)</b>	(57,650)
Other expenses		<b>(4,161)</b>	(9,790)
Write down of inventories		<b>(5,847)</b>	(24,510)
Loss on disposal of subsidiaries		<u><b>(8,474)</b></u>	<u>(12,226)</u>
<b>Profit from operations</b>		<b>77,368</b>	76,802
Finance costs		<u><b>(30,093)</b></u>	<u>(51,069)</u>
<b>Profit before taxation</b>	3	<b>47,275</b>	25,733
Income tax	4	<u><b>(16,394)</b></u>	<u>(13,816)</u>
<b>Profit for the year</b>		<u><b>30,881</b></u>	<u>11,917</u>
<b>Attributable to:</b>			
– Owners of the Company		<b>29,793</b>	11,067
– Non-controlling interests		<u><b>1,088</b></u>	<u>850</u>
<b>Profit for the year</b>		<u><b>30,881</b></u>	<u>11,917</u>
<b>Earnings per share</b>	6		
– Basic		<u><b>HK4.98 cents</b></u>	<u>HK2.26 cents</u>
– Diluted		<u><b>HK4.92 cents</b></u>	<u>HK2.26 cents</u>

**Consolidated Statement of Comprehensive Income**  
*For the year ended 30 June 2010*

	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>Profit for the year</b>	<b>30,881</b>	11,917
<b>Other comprehensive income for the year</b>		
Exchange differences on translation of financial statements of overseas subsidiaries	<b>2,670</b>	(1,712)
Reclassification adjustment for exchange difference relating to disposal of a jointly-controlled entity	–	(1,319)
Reclassification adjustment for exchange difference relating to disposal of overseas subsidiaries	<b>(157)</b>	–
	<b>2,513</b>	(3,031)
Income tax relating to components of other comprehensive income	–	–
<b>Other comprehensive income for the year, net of tax</b>	<b>2,513</b>	(3,031)
<b>Total comprehensive income for the year</b>	<b>33,394</b>	8,886
<b>Attributable to:</b>		
Owners of the Company	<b>32,306</b>	8,234
Non-controlling interests	<b>1,088</b>	652
	<b>33,394</b>	8,886

**Consolidated Statement of Financial Position**  
As at 30 June 2010

	<i>Note</i>	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>109,150</b>	82,676
Investment properties		–	20,557
Lease premiums for land		<b>3,253</b>	8,538
Intangible assets		<b>21,404</b>	32,917
Goodwill		<b>81,341</b>	85,881
Available-for-sale financial assets		<b>26,801</b>	–
Other deposit		<b>13,657</b>	27,224
		<u><b>255,606</b></u>	<u>257,793</u>
<b>Current assets</b>			
Lease premiums for land		<b>96</b>	240
Inventories		<b>94,131</b>	147,882
Trade and other receivables	7	<b>2,037,036</b>	1,704,977
Trading securities		<b>1,292</b>	2,989
Restricted bank deposits		<b>340,881</b>	305,706
Cash and cash equivalents		<b>95,234</b>	112,621
		<u><b>2,568,670</b></u>	<u>2,274,415</u>
<b>Current liabilities</b>			
Trade and other payables	8	<b>(1,316,047)</b>	(1,482,729)
Bank loans		<b>(539,009)</b>	(304,433)
Tax payable		<b>(47,995)</b>	(37,603)
Convertible bonds		<b>(896)</b>	–
		<u><b>(1,903,947)</b></u>	<u>(1,824,765)</u>
<b>Net current assets</b>		<u><b>664,723</b></u>	<u>449,650</u>
<b>Total assets less current liabilities</b>		<u><b>920,329</b></u>	<u>707,443</u>
<b>Non-current liabilities</b>			
Bank loans		<b>(5,918)</b>	–
Convertible bonds		<b>(28,963)</b>	–
		<u><b>(34,881)</b></u>	<u>–</u>
<b>NET ASSETS</b>		<u><b>885,448</b></u>	<u>707,443</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>64,277</b>	48,977
Reserves		<b>800,320</b>	638,207
<b>Total equity attributable to owners of the Company</b>		<u><b>864,597</b></u>	<u>687,184</u>
<b>Non-controlling interests</b>		<u><b>20,851</b></u>	<u>20,259</u>
<b>TOTAL EQUITY</b>		<u><b>885,448</b></u>	<u>707,443</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 accounting period of the Group and the Company. The Notes provides information on any changes in accounting policies resulting from 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 products (“trading operation”); (ii) manufacturing and sales of plant growth regulatory products, pesticides and fertilizers (“manufacturing operation”); (iii) provision of plant protection technical services (“consultancy operation”); and (iv) trading of non-agricultural resources products (“non-agricultural resources trading operation”) in Mainland China.

Turnover represents the 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 2010

	Trading operation HK\$'000	Manu- facturing operation HK\$'000	Consultancy operation HK\$'000	Non- agricultural resources trading operation HK\$'000	Total HK\$'000
Revenue from external customers	2,446,356	121,032	13,693	780,948	3,362,029
Inter-segment revenue	18,756	15,555	–	43,179	77,490
Reportable segment revenue	<u>2,465,112</u>	<u>136,587</u>	<u>13,693</u>	<u>824,127</u>	<u>3,439,519</u>
Reportable segment profit before taxation	<u>8,616</u>	<u>8,990</u>	<u>11,903</u>	<u>33,946</u>	<u>63,455</u>
Interest income	17,590	8	6	254	17,858
Finance cost	23,982	–	–	4,556	28,538
Depreciation and amortisation	3,656	11,880	2	336	15,874
Write down of inventories	5,847	–	–	–	5,847
Impairment loss on – trade receivables	314	636	–	3,211	4,161

(ii) For the year ended 30 June 2009

	Trading operation HK\$'000	Manu- facturing operation HK\$'000	Consultancy operation HK\$'000	Non- agricultural resources trading operation HK\$'000	Total HK\$'000
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
Reportable segment revenue	<u>2,306,205</u>	<u>257,307</u>	<u>19,235</u>	<u>733,572</u>	<u>3,316,319</u>
Reportable segment profit/(loss) before taxation	<u>(2,391)</u>	<u>21,668</u>	<u>9,820</u>	<u>3,840</u>	<u>32,937</u>
Interest income	16,137	31	30	268	16,466
Finance costs	43,559	37	–	7,473	51,069
Depreciation and amortisation	2,037	13,766	2,111	284	18,198
Write down of inventories	20,074	42	–	4,394	24,510
Impairment loss on – intangible assets	–	798	–	–	798
– property, plant and equipment	–	–	137	–	137
– trade receivables	2,843	538	–	5,474	8,855

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:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Interest on bank loans and other borrowings wholly repayable within five years	28,538	51,069
Interest on convertible bonds	1,555	–
Total interest expense on financial liabilities not at fair value through profit or loss	30,093	51,069
Staff costs, including directors' emoluments <sup>#</sup>	33,586	29,465
Depreciation <sup>#</sup>	7,549	5,478
Amortisation <sup>#</sup>		
– lease premiums for land	258	306
– intangible assets	8,067	12,414
Cost of inventories <sup>#</sup>	3,183,660	2,966,047
Write down of inventories	5,847	24,510
Impairment loss on		
– property, plant and equipment*	–	137
– intangible assets*	–	798
– trade receivables*	4,161	8,855
Auditor's remuneration		
– audit services	1,250	1,300
– other services	208	50
Loss on disposal of subsidiaries	8,474	12,226
Loss on disposal of property, plant and equipment	324	2,363
Operating lease charges: minimum lease payments for land and buildings <sup>#</sup>	4,306	4,312
Interest income on financial assets not at fair value through profit or loss	(17,858)	(16,466)

<sup>#</sup> *Cost of inventories includes approximately HK\$9,244,000 (2009: HK\$11,125,000) relating to staff costs, depreciation, amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above.*

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

### 4. Income tax

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Current tax:		
– Hong Kong profits tax	–	–
– PRC enterprise income tax	13,957	13,816
Under provision in respect of prior years:		
– PRC enterprise income tax	2,437	–
	16,394	13,816

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 2010 and 2009.

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 with effect from 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 the profits earned by the Company's certain PRC subsidiaries for the period from 1 January 2008 to 30 June 2010 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 2010 (2009: 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

	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Earnings for the purpose of basic and diluted earnings per share	<b>29,793</b>	11,067

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

	<b>Number of shares</b>	
	<b>2010</b> <i>'000</i>	2009 <i>'000</i>
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>597,735</b>	489,767
Effect of dilutive potential shares arising from – share options	<b>7,625</b>	194
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>605,360</b>	489,961

Unlisted warrants had anti-dilutive effects on the basic earnings per share for the year ended 30 June 2009 and 2010.

Convertible bonds had anti-dilutive effects on the basic earnings per share for the year ended 30 June 2010.



## 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:

	<b>The Group</b>	
	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-90 days	<b>502,827</b>	613,965
91-180 days	<b>82,828</b>	34,042
181-365 days	<b>29,754</b>	22,789
Over 365 days	<b>2,477</b>	11,799
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	<b>617,886</b>	682,595
<i>Less: allowance for doubtful debts</i>	<b>(4,161)</b>	(8,855)
	<hr/>	<hr/>
	<b>613,725</b>	673,740
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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, 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 end of the reporting period:

	<b>The Group</b>	
	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Due within 1 month or on demand	<b>324,959</b>	550,445
Due after 1 month but within 2 months	<b>196,804</b>	482,832
Due after 2 months but within 3 months	<b>105,939</b>	37,134
Due after 3 months but within 6 months	<b>496,819</b>	218,374
Due after 6 months	<b>14,769</b>	23,576
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	<b>1,139,290</b>	1,312,361
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## 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 2010 for their consideration.

### **Turnover and Profits**

For the year ended 30 June 2010, the consolidated turnover of the Group was approximately HK\$3,362,029,000 (2009: HK\$3,178,420,000), representing a growth of approximately 6%; and the profit attributable to owners of the Company was approximately HK\$29,793,000 (2009: HK\$11,067,000), representing an increase of approximately 169%. Excluding the effect of employee share-based compensation expense, net profit was approximately HK\$37,833,000 (2009: HK\$11,067,000), representing an increase of approximately 242%.

### **Business Review**

As a result of the global financial turmoil and the sharp fall in commodity prices in 2008, market demand for the second half of 2009 was still weak, but there were signs of recovery in the fertilizer market during the first half of 2010. Leveraging on its extensive experience in management and marketing, and also prompt and decisive adjustment to its strategy, annual turnover reached HK\$3.36 billion, representing a moderate growth of around 6% over the previous year. However, against the impact of weak market demand, overcapacity of fertilizers, successive bad weather and disaster in the Northern and Southern regions of China, the Group experienced a fall in gross profit margins averaging approximately 5.3% (2009: approximately 6.7%). Amid the unfavorable operating environment, China Agrotech actively controlled its cost and inventory level, and had achieved satisfactory result, making our net profit for the year increase by 169% to HK\$29,793,000.

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 were still weak, sales promotion with thin margins remained our prime target. Though the price stayed low, the Group closely monitored the market trend of pricing and shortened turnover of inventory to reap profits as soon as possible. As a result, aggregate sales volume of fertilizers reached 1.07 million tonnes (2009: 1.06 million tonnes), which is comparable with last year. Given the thin profit margin, the rise in turnover co-existed with the inevitable fall in gross profit of various products. During the financial year under review, the Group recorded a gross profit of approximately HK\$178 million (2009: approximately HK\$212 million), representing a decline of approximately 16% over the previous year. Overall gross profit margin also fell from approximately 6.7% last year to approximately 5.3% this year. Average gross profit margin of agricultural resources products that made up 77% of total turnover fell from approximately 7.3% last year to approximately 5.3% this year.

As to individual product, due to the thin margin of nitrogenous fertilizer, the Group kept reducing the sales in this category so as to shun its downside risk. For phosphorous fertilizer, potash fertilizer and pesticides, 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, and has gathered growth momentum to the overall turnover.

## **Corporate Strategies and Prospects**

Despite prices of various fertilizers are currently at a relatively low level, price trend for the second half of 2010 and 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, the 2010 No. 1 Document issued by the Central Government emphasized a continuous increase in the input in the agricultural sector in terms of total volume, as well as a steady growth in proportion. The Central Government also takes every measure to increase the grain production, which will speed up the pace of resumption of the fertilizer market in the coming years and provide the industry with greater room for development.

In the coming year, the Group will continue 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 chemical 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.

Furthermore, the Group is actively 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. Among others, China Agrotech announced in July 2010 the acquisition of a landscaping seedlings enterprise in Shanxi, which had been approved by our shareholders at the extraordinary general meeting held this month. The landscaping seedlings enterprise will soon become our new business scope, and will bring new growth momentum to the Group. 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 2010, the Group's consolidated turnover was approximately HK\$3,362,029,000 (2009: HK\$3,178,420,000) and net profit attributable to owners of the Company was approximately HK\$29,793,000 (2009: HK\$11,067,000), representing a growth of about 6% and 169% respectively as compared to those of the previous financial year. Net profit, excluding the impact of valuation loss of employees share-based compensation expense, was approximately HK\$37,833,000 (2009: HK\$11,067,000), representing an increase of about 242%.

The major factors causing the increase in net profit for the year were the decrease in operating expenses and the amount of write-down of inventories, which diminished the effect of decrease in overall gross profit during the year as a result of shrink in gross profit margins of agricultural resources products.

The overall decrease in gross profit margin of agricultural resources products from approximately 7.3% last year to 5.3% this year was mainly due to the fact that the market demand was yet to fully resume and as such, the extent of drop in selling prices of the Group's products was greater than the decrease in cost of purchase, and hence, the overall gross profit margin was shrunk. Although the restoration of market demand was slow during the year, as a result of the Group's successful sales strategies and experience in grasping market trend, the Group's turnover was increased in both agricultural resources operation and non-agricultural resources products trading operation.

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:

	<b>2010</b>	<b>Percentage of the total turnover</b>	2009	Percentage of the total turnover
	<b>Turnover HK\$'000</b>		Turnover HK\$'000	
Agricultural resources operation				
nitrogenous fertilizer	<b>320,887</b>	<b>10%</b>	416,646	13%
phosphorous fertilizer	<b>452,167</b>	<b>13%</b>	422,243	13%
potash fertilizer	<b>507,764</b>	<b>15%</b>	466,553	15%
compound fertilizer	<b>825,698</b>	<b>25%</b>	827,317	26%
pesticides	<b>474,565</b>	<b>14%</b>	402,902	13%
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Agricultural resources products (subtotal)	<b>2,581,081</b>	<b>77%</b>	2,535,661	80%
Trading of non-agricultural resources products	<b>780,948</b>	<b>23%</b>	642,759	20%
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Total	<b>3,362,029</b>	<b>100%</b>	3,178,420	100%
	<hr/>		<hr/>	

Aggregate sales volume of fertilizers, including nitrogenous fertilizer, phosphorous fertilizer, potash fertilizer and compound fertilizer, increased slightly by about 1% from approximately 1,060,000 tonnes last year to approximately 1,070,000 tonnes this year. The aggregate turnover of fertilizers for this year was approximately HK\$2.107 billion, representing a slight decrease of about 1% as compared to approximately HK\$2.133 billion last year.

For pesticides, turnover increased by approximately 18% from approximately HK\$403 million last year to approximately HK\$475 million this year.

Turnover for the trading of non-agricultural resources products increased from approximately HK\$643 million last year to approximately HK\$781 million this year.

Gross profit for the year amounted to approximately HK\$178,369,000, representing a decline of approximately 16% as compared to that of the last year. Overall gross profit margin of the Group decreased from approximately 6.7% last year to approximately 5.3% this year.

## **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 1.8% (2009: 2.8%). 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 180,000 tonnes (2009: 230,000 tonnes) while turnover dropped by 23% to HK\$321 million (2009: HK\$417 million).

### *(2) Phosphorous fertilizer*

During the financial year under review, the market demand for phosphorous fertilizer was comparable to that of the last year. The Group leveraged on its experience in phosphorous fertilizer and increased such trading while shortened the stock turnover days so as to minimize operational risk. As a result, the sales volume of phosphorous fertilizer increased by 6% to approximately 350,000 tonnes (2009: 330,000 tonnes), while turnover increased by 7% to HK\$452 million (2009: HK\$422 million). However, the gross profit margin decreased from approximately 7.5% last year to approximately 4.2% this year due to the disposal of a phosphorous fertilizer factory during the year as a part of the Group's manufacturing facilities reengineering plan, and hence, only trading with a relatively thinner margin resulted in the drop in gross profit margin.

### *(3) Potash fertilizer*

During the financial year under review, there was a sharp fall in domestic demand for potash fertiliser, causing an obvious drop in market price. Nevertheless, during the year, the Group continued to leverage on the advantages of central purchase and its own network to expand the operation of potash fertiliser, and successfully sourced a stable supply for potash fertiliser for the tobacco market. Therefore, sales volume of potash fertiliser for the year increased by 18% to 150,000 tonnes (2009: 127,000 tonnes) while turnover increased by 9% to approximately HK\$508 million (2009: HK\$467 million). However, due to the drop in selling prices, the gross profit margin decreased from approximately 5.1% last year to 3.8% 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 adjusted the product mix of compound fertilizer products to accommodate market demand. Sales volume increased from approximately 374,000 tonnes last year to approximately 390,000 tonnes this year. Turnover of approximately HK\$826 million was comparable to HK\$827 million last year, while gross profit margin decreased from approximately 8.2% last year to approximately 5.2% 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 18% to approximately HK\$475 million (2009: HK\$403 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 12.4% last year to approximately 10.4% this year.

As a part of the Group's restructuring plan of the manufacturing operation, the Group disposed of two subsidiaries engaged in the production of phosphorous fertilisers and compound fertilisers respectively, and recorded a loss of approximately HK\$8.3 million during the year. The Group also acquired 10% of the issued share capital of a PRC pesticides manufacturer at a consideration of approximately HK\$25.4 million, as the Group's strategic investment.

### **Trading of Non-Agricultural Resources Products**

For the trading of non-agricultural resources products, orders were increased due to gradual resumption of worldwide commodities market. Hence turnover and gross profit increased by 21% to approximately HK\$781 million (2009: HK\$643 million) and 56% to HK\$42.3 million (2009: HK\$27.2 million) respectively. Gross profit margin also increased from approximately 4.2% last year to approximately 5.4% this year due to the gradual increase 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 2010, cash and cash equivalents and restricted bank deposits of approximately HK\$436,115,000 included HK\$747,000 which was denominated in Hong Kong dollars, HK\$431,210,000 which was denominated in Renminbi and HK\$4,158,000 which was denominated in US dollars.

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

During the year, the Company successfully raised funds from placing of new shares and convertible bonds, which amounted to an aggregate net proceeds of approximately HK\$105.8 million. The Company also raised additional funds of HK\$58.9 million from the exercise of subscription rights attaching to unlisted warrants by certain warrant-holders. The funds raised were used as general working capital of the Group.



### *Borrowings and banking facilities*

As at 30 June 2010, the Group had bank loans of approximately HK\$544,927,000 (approximately HK\$485,014,000 was denominated in Renminbi and approximately HK\$59,913,000 was denominated in US/Euro dollars) bearing interest at rates ranging from 1.1% to 7.5% per annum. As at 30 June 2010, the Group had bills payable of approximately HK\$928 million which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of approximately HK\$318 million which was also denominated in Renminbi.

As at 30 June 2010, the Group had convertible bonds with outstanding principal amount of HK\$29,880,000 (due in July 2011) which was denominated in Hong Kong dollars and bore interest at 3% per annum.

As at 30 June 2010, the Group's maintained a gearing ratio of approximately 66%. This was based on the division of the total amount of bank loans and convertible bonds (liability components) by total equity attributable to owners of the Company as at 30 June 2010. The Directors, taking into account of the nature and scale of operations of the Group, considered that the gearing ratio as at 30 June 2010 was healthy.

### *Commitments*

As at 30 June 2010, the Group had no significant outstanding contracted capital commitments. As at 30 June 2010, the Group had operating lease commitments of approximately HK\$24,236,000.

### *Contingent liabilities*

As at 30 June 2010, the Group had no material contingent liabilities.

### **Remuneration Policies and Share Option Scheme**

The Group incurred total salaries and other remunerations (excluding employees share-based compensation expense) of approximately HK\$25.5 million with an average number of about 900 staff during the year ended 30 June 2010.

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 2010, options in respect of 48,970,000 shares of the Company were granted to the relevant participants under the Scheme (2009: nil).



## **EVENTS AFTER THE REPORTING PERIOD**

On 22 June 2010, the Company, the vendors and the warrantors entered into a sale and purchase agreement (the “Agreement”, as amended by the supplemental agreement dated 27 July 2010) in relation to the acquisition of 100,000 ordinary shares (the “Sale Shares”) of Present Sino Limited (“PSL”). Pursuant to the Agreement, the Company agreed to acquire from the vendors the Sale Shares, representing all issued shares in PSL, at an aggregate consideration of HK\$1,000,000,000 to be satisfied by the issue of promissory notes and convertible bonds. Subject to and in accordance with the terms and conditions of the Agreement, PSL shall become a wholly-owned subsidiary of the Company upon completion. The principal business of the PSL and its subsidiaries is, amongst other things, research and development, nursing, planting and sales of landscaping seedlings, led by whitebark pine and other rare seedlings in the PRC.

The Agreement constitutes a very substantial acquisition and connected transaction for the Company under the Listing Rules.

The Agreement and the transactions contemplated thereunder have been approved by the independent shareholders at the extraordinary general meeting of the Company held on 15 October 2010. Details of the Agreement and the transactions contemplated thereunder are set out in the circular dated 25 September 2010 despatched to the shareholders.

Details of other events after the reporting period are set out in “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 2010. 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**

The Board considers that the Company has complied throughout the year ended 30 June 2010 with the code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Listing Rules, 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.
3. Under code provision A.4.2 of the CG Code, any director appointed to fill the casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Pursuant to the articles of association of the Company, any director appointed to fill a casual vacancy shall hold office until the next following annual general meeting. The Board is of the view that the forthcoming annual general meeting to be held in December 2010 is close to the extraordinary general meeting held on 15 October 2010. Hence, Mr. Wong Kin Tak who was appointed to fill the casual vacancy during the year would retire and subject to re-election at the forthcoming annual general meeting instead of retiring at the extraordinary general meeting held on 15 October 2010.

## **AUDIT COMMITTEE**

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 2010 have been reviewed by the audit committee.

## **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 has 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 2010.

## **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 Kin Tak, who are the independent non-executive directors of the Company.

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

Hong Kong, 25 October 2010