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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 2011**

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 2011, together with the comparative figures for the previous financial year as follows:

* *For identification purpose only*

Consolidated Income Statement

	<i>Note</i>	Year ended 30 June	
		2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Turnover	2	4,242,804	3,362,029
Cost of sales		<u>(3,981,200)</u>	<u>(3,183,660)</u>
Gross profit		261,604	178,369
Other revenue and other net income		35,695	39,619
Loss arising from change in fair value less costs to sell of biological assets		(34,679)	—
Gain from bargain purchases on acquisition of subsidiaries		217,285	—
Gain from change in fair value of derivative financial liabilities		40,817	—
Distribution costs		(52,975)	(48,764)
Administrative expenses		(107,019)	(73,374)
Impairment loss on trade receivables		(13,075)	(4,161)
Write down of inventories		—	(5,847)
Loss on disposal of subsidiaries		(5,143)	(8,474)
Loss on disposal of biological assets		(121,569)	—
Profit from operations		220,941	77,368
Finance costs		(84,369)	(30,093)
Profit before taxation	3	136,572	47,275
Income tax	4	(6,317)	(16,394)
Profit for the year		<u>130,255</u>	<u>30,881</u>
Attributable to:			
— Owners of the Company		126,558	29,793
— Non-controlling interests		3,697	1,088
Profit for the year		<u>130,255</u>	<u>30,881</u>
Earnings per share	6		
— Basic		<u>HK18.49 cents</u>	<u>HK4.98 cents</u>
— Diluted		<u>HK18.46 cents</u>	<u>HK4.92 cents</u>

Consolidated Statement of Comprehensive Income

	Year ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Profit for the year	130,255	30,881
Other comprehensive income for the year		
Exchange differences on translation of financial statements of subsidiaries in the PRC	87,933	2,670
Reclassification adjustment for exchange difference relating to disposal of subsidiaries in the PRC	(798)	(157)
	87,135	2,513
Income tax relating to components of other comprehensive income	—	—
Other comprehensive income for the year, net of tax	87,135	2,513
Total comprehensive income for the year	217,390	33,394
Attributable to:		
Owners of the Company	213,611	32,306
Non-controlling interests	3,779	1,088
	217,390	33,394

Consolidated Statement of Financial Position

		At 30 June	
		2011	2010
	Note	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		135,662	109,150
Investment properties		—	—
Lease premiums for land		11,476	3,253
Biological assets		883,536	—
Intangible assets		68,481	21,404
Goodwill		98,330	81,341
Available-for-sale financial assets		27,348	26,801
Other deposit		14,447	13,657
		<u>1,239,280</u>	<u>255,606</u>
Current assets			
Lease premiums for land		272	96
Inventories		100,520	94,131
Trade and other receivables	7	2,855,266	2,037,036
Trading securities		4,147	1,292
Restricted bank deposits		609,787	340,881
Cash and cash equivalents		178,514	95,234
		<u>3,748,506</u>	<u>2,568,670</u>
Current liabilities			
Trade and other payables	8	(2,004,660)	(1,316,047)
Bank loans		(674,977)	(539,009)
Tax payable		(51,379)	(47,995)
Derivative financial liabilities		(50,462)	—
Convertible bonds		(30,623)	(896)
		<u>(2,812,101)</u>	<u>(1,903,947)</u>
Net current assets		<u>936,405</u>	<u>664,723</u>
Total assets less current liabilities		<u>2,175,685</u>	<u>920,329</u>
Non-current liabilities			
Bank loans		(14,447)	(5,918)
Convertible bonds		(544,244)	(28,963)
Deferred tax liabilities		(13,702)	—
Promissory notes		(182,016)	—
		<u>(754,409)</u>	<u>(34,881)</u>
NET ASSETS		<u>1,421,276</u>	<u>885,448</u>
CAPITAL AND RESERVES			
Share capital		77,977	64,277
Share premium and reserves		1,320,078	800,320
Total equity attributable to owners of the Company		<u>1,398,055</u>	<u>864,597</u>
Non-controlling interests		<u>23,221</u>	<u>20,851</u>
TOTAL EQUITY		<u>1,421,276</u>	<u>885,448</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 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 2011

	Trading operation HK\$'000	Manu- facturing operation HK\$'000	Consultancy operation HK\$'000	Non- agricultural resources trading operation HK\$'000	Seedling operation HK\$'000	Total HK\$'000
Revenue from external customers	2,943,426	238,555	26,951	917,796	116,076	4,242,804
Inter-segment revenue	31,205	21,447	—	29,354	—	82,006
Reportable segment revenue	<u>2,974,631</u>	<u>260,002</u>	<u>26,951</u>	<u>947,150</u>	<u>116,076</u>	<u>4,324,810</u>
Reportable segment profit/(loss) before taxation	<u>37,944</u>	<u>(2,799)</u>	<u>23,328</u>	<u>(1,267)</u>	<u>(124,612)</u>	<u>(67,406)</u>
Interest income	16,908	101	13	1,088	9	18,119
Finance costs	36,708	3,532	—	8,136	—	48,376

(ii) 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

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	
	2011 HK\$'000	2010 HK\$'000
Interest on bank loans and other borrowings wholly repayable within five years	48,376	28,538
Interest on convertible bonds	28,520	1,555
Interest on promissory notes	7,473	—
Total interest expense on financial liabilities not at fair value through profit or loss	84,369	30,093
Staff costs, including directors' emoluments [#]	33,946	33,586
Depreciation [#]	11,568	7,549
Amortisation [#]		
— lease premiums for land	203	258
— intangible assets	8,741	8,067
Cost of inventories [#]	3,981,200	3,183,660
(Reversal)/Write down of inventories	(5,847)	5,847
Impairment loss on		
— trade receivables	13,075	4,161
Auditor's remuneration		
— audit services	1,550	1,250
— other services	644	208
Loss on disposal of subsidiaries	5,143	8,474
Loss on disposal of property, plant and equipment	431	324
Loss on disposal of biological assets	121,569	—
Operating lease charges: minimum lease payments for land and buildings [#]	7,254	4,306
Interest income on financial assets not at fair value through profit or loss	(18,119)	(17,858)

[#] *Cost of inventories includes approximately HK\$10,471,000 (2010: HK\$9,244,000) 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	
	2011 HK\$'000	2010 HK\$'000
Current tax:		
— Hong Kong profits tax	—	—
— PRC Enterprise Income Tax	12,556	13,957
(Over)/under provision in respect of prior years:		
— PRC Enterprise Income Tax	(5,333)	2,437
Deferred tax:		
Current year	(906)	—
	6,317	16,394

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 2011 and 2010.

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.

Except for deferred tax liabilities recognised on acquisition of subsidiaries in respect of fair value of intangible assets identified and recognised, no deferred tax liabilities on dividend have been recognised, as the Company controls the dividend policy of its subsidiaries and it has been determined that the profits earned by the Company's certain PRC subsidiaries for the period from 1 January 2008 to 30 June 2011 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 2011 (2010: 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	
	2011 HK\$'000	2010 HK\$'000
Earnings for the purpose of basic and diluted earnings per share	<u>126,558</u>	<u>29,793</u>

(b) Weighted average number of ordinary shares

	Number of shares	
	2011 '000	2010 '000
Weighted average number of ordinary shares used in calculating basic earnings per share	684,478	597,735
Effect of dilutive potential shares arising from — share options	<u>1,217</u>	<u>7,625</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>685,695</u>	<u>605,360</u>

Convertible bonds and unlisted warrants had anti-dilutive effects on the basic earnings per share for the year ended 30 June 2010 and 2011.

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	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
0–90 days	705,114	502,827
91–180 days	39,659	82,828
181–365 days	44,347	29,754
Over 365 days	7,746	2,477
	<u>796,866</u>	<u>617,886</u>
<i>Less: allowance for doubtful debts</i>	<i>(13,075)</i>	<i>(4,161)</i>
	<u><u>783,791</u></u>	<u><u>613,725</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, 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	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Due within 1 month or on demand	385,103	324,959
Due after 1 month but within 2 months	311,865	196,804
Due after 2 months but within 3 months	246,807	105,939
Due after 3 months but within 6 months	762,481	496,819
Due after 6 months	33,610	14,769
	<u>1,739,866</u>	<u>1,139,290</u>

9. Comparative figures

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

**EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
2011**

Basis for disclaimer of opinion

(1) Scope limitation — Biological assets

As detailed in note 41 to the consolidated statement of financial position, on 17 May 2011, an order was issued by the middle court of Taiyuan City, Shanxi (the "Court") for sealing up the Plantation Base as defined below for a period of two years from 18 May 2011 to 17 May 2013 pending trial by the Court. As a result of the sealing up, the Group is not able to transfer, sale, change register, pledge and other similar activities in respect of the Plantation Base. The total fair value less costs to sell of the biological assets associated with the Plantation Base amounted to approximately HK\$832,042,000 as at 30 June 2011. In the absence of available information evidencing the financial effects of the seal up order, the current valuation of the aforesaid biological assets is prepared based on an assumption, among others, that these biological assets can be freely disposed of and transferred free of all encumbrances. Due to the lack of sufficient appropriate evidence for the above-mentioned, we are not able to satisfy ourselves as to whether the bases of measurement are appropriate and the value of the aforesaid biological assets is fairly stated in the consolidated statement of financial position of the Group as at 30 June 2011.

(2) Scope limitation — Financial guarantees undertaken by the Group

During the course of our audit, certain information showing that the Group has outstanding contingent liabilities arising from guarantees provided to banks for liabilities of third parties to a total extent of HK\$132,136,000 as at 30 June 2011 has been obtained.

In the opinion of the directors of the Company, due to the absence of adequate information, they are unable to confirm whether these financial guarantees are related to the Group. Consequently, the financial effects of these guarantees have not been measured and accounted for in the consolidated financial statements for the current year.

We were not able to carry out alternative audit procedures to satisfy ourselves as to the matters set out above.

Any adjustment that might have been found to be necessary in respect of the matters set out in the paragraphs above would have a significant consequential effect on the financial position of the Group and of the Company as at 30 June 2011 and the profit and cash flows of the Group for the year then ended and the related disclosures in the financial statements.

Disclaimer of opinion

Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter — Material uncertainty relating to possible outcome of outstanding litigation

Without further qualifying our opinion, we draw attention to note 41 to the consolidated financial statements concerning the uncertainty relating to the possible outcome of a lawsuit initiated on 16 May 2011 by a seller (the “Plaintiff”) of certain Lacebark Pine plantation base in Shanxi Province (the “Plantation Base”) against a new wholly-owned subsidiary acquired by the Group on 1 November 2010 (the “Defendant”) alleging that (i) in entering three sales and purchases contracts of the Plantation Base the Defendant had induced the Plaintiff to sell at extremely low prices that were collectively far below the consideration the Company paid for the acquisition of the Defendant, and (ii) the underlying consideration was not paid for. The Plaintiff requested the Court to cancel the sales and purchases contracts and return the Plantation Base to the Plaintiff.

As the case is in the early stage of its proceeding, there is a material uncertainty in respect of the outcome of the final judgment and the financial impact on the financial position of the Group.

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 2011 for their consideration.

Turnover and Profits

For the year ended 30 June 2011, the consolidated turnover of the Group was approximately HK\$4,242,804,000 (2010: HK\$3,362,029,000), representing a growth of approximately 26%; and the profit attributable to owners of the Company was approximately HK\$126,558,000 (2010: HK\$29,793,000), representing an increase of approximately 325%. 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 bargain purchases on acquisition of subsidiaries, gain from change in fair value of derivative financial liabilities and notional interest expense on financial liabilities) and the one-off loss on disposal of the whole biological assets of a seedling plantation base, net profit was approximately HK\$60,697,000 (2010: HK\$31,348,000), representing an increase of approximately 94%.

Business Review

After having undergone two years' trough of the operating environment as affected by worldwide economic situation, there were signs of recovery in the fertilizer market during the first half of 2010, which become more obvious during the year under review. Leveraging on its extensive experience in management of its existing agricultural resources operation, and also prompt and decisive adjustment to its market and investment strategies, annual turnover reached HK\$4.24 billion, representing a remarkable growth of around 26% over the previous year. The Group was also able to improve its gross profit margins to approximately 6.2% (2010: approximately 5.3%). Moreover, the Group actively controlled its cost and inventory level, as well as made successful new investments, and hence achieved satisfactory result, making our net profit (after excluding certain non-cashflow and one-off items) for the year increase by 94% to HK\$60,697,000.

During the year under review, the Group's distribution network demonstrated the effect of consolidation under the steadily recovering business environment and contributed to the remarkable growth of the Group's turnover. During the year, prices of agricultural resources products showed obvious increase, nevertheless, 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 1.12 million tonnes (2010: 1.07 million tonnes), representing an increase of about 5%. Coupled with the contribution from the newly acquired pesticide manufacturer and seedling business, the Group recorded a gross profit of approximately HK\$262 million (2010: approximately HK\$178 million), representing a sharp increase of approximately 47% over the last year. Average gross profit margin of agricultural resources products that made up 76% of total turnover increased from approximately 5.3% last year to approximately 6.1% 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, compound 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 and profit margin.

Corporate Strategies and Prospects

In the year 2011, 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 "50-Billion-Kilogram Grain Production Capacity Expansion Program" launched by the Central Government demonstrated its diligence to take 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.

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

Looking forward, in addition to the on-going pursuit of its centralized purchase and distribution policy and optimization of product mix, the Group will actively strengthen strategic cooperation with upstream brandname suppliers to further explore quality resources thereby increasing its stability and sustainability.

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

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 2011, the Group's consolidated turnover was approximately HK\$4,242,804,000 (2010: HK\$3,362,029,000) and net profit attributable to owners of the Company was approximately HK\$126,558,000 (2010: HK\$29,793,000), representing a growth of about 26% and 325% respectively as compared to those of 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 bargain purchases on acquisition of subsidiaries, gain from change in fair value of derivative financial liabilities and notional interest expense on financial liabilities) and the one-off loss on disposal of the whole biological assets of a seedling plantation base, was approximately HK\$60,697,000 (2010: HK\$31,348,000), representing an increase of about 94%.

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 a newly acquired business which contributed eight months' results for the reporting period.

The major factors causing the increase in net profit for the year were the increase in turnover coupled with improvement in gross profit margin of agricultural resources operation; and the operation profit contribution from the newly acquired seedling business during the year.

The overall increase in gross profit margin of agricultural resources products from approximately 5.3% last year to 6.1% this year was mainly due to the gradual market resumption and obvious increase in selling prices of fertilizers and pesticides during the year. Moreover, the Group's acquisition of a pesticide manufacturer and the seedling business during the year also made contribution to the remarkable increase in turnover and gross profit of the Group.

Existing businesses — agricultural resources operation and trading of non-agricultural resources products:

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

	2011		2010	
	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	347,406	8%	320,887	10%
phosphorous fertilizer	563,920	14%	452,167	13%
potash fertilizer	656,126	16%	507,764	15%
compound fertilizer	1,167,528	28%	825,698	25%
pesticides	473,952	12%	474,565	14%
Agricultural resources products (subtotal)	3,208,932	78%	2,581,081	77%
Trading of non-agricultural resources products	917,796	22%	780,948	23%
Total	4,126,728	100%	3,362,029	100%

Aggregate sales volume of fertilizers, including nitrogenous fertilizer, phosphorous fertilizer, potash fertilizer and compound fertilizer, increased by about 5% from approximately 1,070,000 tonnes last year to approximately 1,120,000 tonnes this year. The aggregate turnover of fertilizers for this year was approximately HK\$2.735 billion, representing an increase of about 30% as compared to approximately HK\$2.107 billion last year.

For pesticides, turnover of approximately HK\$474 million was comparable to HK\$475 million of the last year.

Turnover for the trading of non-agricultural resources products increased from approximately HK\$781 million last year to approximately HK\$918 million this year.

Aggregate gross profit and reportable segment profit before taxation from existing businesses amounted to approximately HK\$222,389,000 (2010: HK\$178,369,000) and HK\$57,206,000 (2010: HK\$63,455,000) respectively, representing an increase of approximately 25% and a decrease of approximately 10% respectively as compared to the last year. The decrease in reportable segment profit of existing businesses was mainly due to the increase in finance cost during the year. Overall gross profit margin from existing businesses slightly increased from approximately 5.3% last year to 5.4% this year, which was mainly attributable to increase in selling prices of agricultural resources products during the 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 still thin and the Group recorded a gross profit margin of approximately 2.0% (2010: 1.8%). Therefore, in order to better allocate the Group's working capital resources and minimize operational risks, the Group reduced the trading of nitrogenous fertilizer since the last year and therefore, the sales volume decreased to approximately 170,000 tonnes (2010: 180,000 tonnes) while turnover increased by 8% to HK\$347 million (2010: HK\$321 million) due to increase in market price.

(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 3% to approximately 360,000 tonnes (2010: 350,000 tonnes), while turnover increased by 25% to HK\$564 million (2010: HK\$452 million) due to increase in market price. Moreover, the gross profit margin increased from approximately 4.2% last year to approximately 4.6% this year due to increase in selling price and sales of products with relatively higher margins.

(3) Potash fertilizer

During the year, there was an obvious increase in domestic demand for potash fertilizer, causing a favourable increase in market price. The Group continued to leverage on the advantages of central purchase and its own network to expand the operation of potash fertilizer, as a result, sales volume of potash fertilizer for the year sharply increased by 20% to 180,000 tonnes (2010: 150,000 tonnes) while turnover increased by 29% to approximately HK\$656 million (2010: HK\$508 million). Moreover, due to the increase in selling prices, the gross profit margin increased from approximately 3.8% last year to 4.4% 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 continued to optimize the product mix of compound fertilizer products to accommodate market demand. Sales volume increased from approximately 390,000 tonnes last year to approximately 410,000 tonnes this year. Turnover sharply increased by 41% to approximately HK\$1,168 million (2010: HK\$826 million) while gross profit margin increased from approximately 5.2% last year to approximately 6.2% this year due to increase in selling price and sales of products with higher profit margin.

(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. As a result of the Group's increase in sales of self-manufactured pesticide products, including those through the newly acquired Shandong pesticide manufacturer during the year, while reduced the trading of products sourced outside with relatively lower profit margins, turnover of approximately HK\$474 million was comparable to that of the last year (2010: HK\$475 million). Consequently, the average gross profit margin of pesticides increased from approximately 10.4% last year to approximately 12.9% this year.

As a part of the Group's restructuring plan of its manufacturing operation, apart from the disposal of two subsidiaries engaged in the production of phosphorous fertilizers and compound fertilizers respectively in the last year, the Group also acquired a Shandong pesticide manufacturer in order to strengthen its position in the pesticide market.

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. However, in view of the uncertainties of the worldwide economic environment, the Group shortened the stock turnover days in order to minimize risk. As a result, turnover increased by 18% to approximately HK\$918 million (2010: HK\$781 million) while gross profit decreased by 36% to HK\$27.0 million (2010: HK\$42.3 million) respectively this year.

Gross profit margin also decreased from approximately 5.4% last year to approximately 2.9% this year due to the shortened sales cycle and shrunk profit margins of commodities and resources products during the year.

Newly acquired business — seedling operation:

The Group completed the acquisition of a landscaping seedling enterprise on 1 November 2010. The enterprise, namely, Shanxi Astro-wood, currently operates a total of six seedling plantation bases in Shanxi and Beijing for the nursing, planting and sale of rare landscaping seedlings in the PRC and contributed eight months' results to the Group during the year. During the year, Shanxi Astro-wood contributed a turnover and net profit of approximately HK\$116 million and HK\$31.6 million respectively to the Group from ordinary sales of seedlings (excluding the loss arising from change in fair value less costs to sell of biological assets). On the other hand, Shanxi Astro-wood recorded a special loss of HK\$121.6 million arising from disposal of a seedling base having biological assets with an aggregate carrying value of approximately HK\$251.2 million, as its strategic planning of diversifying its seedling product mix when coupled with the purchase of new seedling species.

During the year, Shanxi Astro-wood was involved in a litigation against it in respect of a seedling base which was purchased by it at the time when it was yet to be acquired by the Company. The Board was of the view that the alleged claim was illegitimate and irrational,

and our legal advisor opined that the claim would probably be rebutted by the court. Details of the litigation is disclosed under the section headed “Extract of Independent Auditor’s Report on the Company’s Consolidated Financial Statements for the Year Ended 30 June 2011” above.

Material Acquisitions

Acquisition of Present Sino Group:

On 22 June, 2010, the Company, the vendors and the warrantors entered into a sale and purchase agreement (as amended by a supplemental agreement dated 27 July 2010) in which the Company agreed to purchase the entire interests of Present Sino Limited and its subsidiaries (“Acquisition of Present Sino Group”) at a consideration of HK\$1,000,000,000. The Acquisition of Present Sino Group was completed on 1 November 2010 and the said consideration was satisfied (i) as to HK\$800,000,000 by the issue of the convertible bonds; and (ii) as to HK\$200,000,000 by the issue of the promissory notes. The Acquisition of Present Sino Group allowed the Company to diversify its scope of agriculture business to seedling industry in the PRC, enlarged its asset base and enhanced its source of income. The Acquisition of Present Sino Group constituted a very substantial acquisition and connected transaction of the Company and was approved by the independent shareholders of the Company at the extraordinary general meeting held on 15 October 2010, the details of the acquisition are set out in the Company’s circular dated 25 September 2010.

Acquisition of Fast Base Group:

On 29 October 2010, the Company and the vendor entered into a sale and purchase agreement in which the Company agreed to purchase the entire interests of Fast Base Holdings Limited and its subsidiaries (“Acquisition of Fast Base Group”) at a consideration of RMB70,000,000 (equivalent to approximately HK\$81,395,000). The Acquisition of Fast Base Group was completed on 2 November 2010. The said consideration was satisfied (i) as to RMB11,520,000 (equivalent to approximately HK\$13,395,000) by cash after the completion; and (ii) as to RMB58,480,000 (equivalent to approximately HK\$68,000,000) by the allotment and issue of 68,000,000 consideration shares at the issue price of HK\$1.00 each, subject to adjustments. The allotment and issue of consideration shares will be settled in two tranches upon the finalization of the audited results of Fast Base Group for the years ending 30 June 2011 and 2012 respectively, and be subject to adjustments, if any, based on the achievement of the guaranteed profits in accordance with the terms and conditions of the sale and purchase agreement. The Acquisition of Fast Base Group enabled the Group to expand its manufacturing operation in respect of pesticides and thereby enhanced its market share in the pesticides market and generated synergy effect with its existing distribution network of agricultural resources products. The Acquisition of Fast Base Group constituted a discloseable transaction of the Company, the details of which are set out in the Company’s announcement dated 29 October 2010.

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 2011, cash and cash equivalents and restricted bank deposits of approximately HK\$788,301,000 included HK\$781,000 which was denominated in Hong Kong dollars, HK\$776,448,000 which was denominated in Renminbi and HK\$11,072,000 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 issue of convertible bonds and unlisted warrants, which amounted to an aggregate net proceeds of approximately HK\$79.6 million. The funds raised were used as general working capital of the Group.

Indebtedness and banking facilities

As at 30 June 2011, the Group had bank loans of approximately HK\$689,424,000 (approximately HK\$502,401,000 was denominated in Renminbi and approximately HK\$187,023,000 was denominated in US/Euro dollars) bearing interest at rates ranging from approximately 3% to 11% per annum. As at 30 June 2011, the Group had bills payable of approximately HK\$1,497 million which was secured by pledged bank deposits of approximately HK\$605 million.

As at 30 June 2011, the Group had (i) convertible bonds (due in July 2011) with outstanding principal amount of HK\$29,880,000 which was denominated in Hong Kong dollars and bore interest at 3% per annum; (ii) convertible bonds (due in November 2015) and promissory notes (due in December 2012) with outstanding principal amount of HK\$663 million and HK\$200 million respectively, both were denominated in Hong Kong dollars and non-interest bearing; and (iii) 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 2011, the Group's gearing ratio is approximately 103%. This was based on the division of the total amount of bank loans, promissory notes and convertible bonds (liability components) by total equity attributable to owners of the Company as at 30 June 2011. 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 2011 was healthy.

Securities in Issue

On 1 November 2010, the Company issued convertible bonds (“CB due 2015”) in the aggregate principal amount of HK\$800,000,000 as part of the consideration for the Acquisition of Present Sino Group as mentioned under the section headed “Material Acquisitions”. The CB due 2015 are non-interest bearing with a maturity date on the 5th anniversary of the issue date (i.e. 1 November 2015) and entitle the holders to convert the CB due 2015 into shares of the Company at a conversion price of HK\$1.00 per share (subject to adjustments). The Company shall redeem the then outstanding CB due 2015 at its principal amount on the maturity date. The CB due 2015 in the principal amount of HK\$132,000,000 are subject to lock-up arrangements, further details of which are set out in the Company’s circular dated 25 September 2010. During the year, the CB due 2015 with an aggregate principal amount of HK\$137,000,000 was converted into 137,000,000 shares of the Company at the conversion price of HK\$1.00 each.

On 26 November 2010, the Company entered into a convertible bond subscription agreement (“CB Subscription Agreement”) and a warrant subscription agreement. By the extraordinary general meeting held on 29 December 2010, shareholders of the Company approved the said agreements and upon the fulfillment of all the conditions precedent set out in the said agreements, the Company completed the issue of RMB70 million zero coupon unsecured convertible bonds (“CB due 2016”) and the issue of unlisted warrants (“Unlisted Warrants”) on 28 January 2011 (“Issue Date”).

(A) CB due 2016

The CB due 2016 are non-interest bearing with a maturity date on the 5th anniversary of the Issue Date (i.e. 28 January 2016) and entitle the bondholders to convert the principal amount of the CB due 2016 plus an accreted yield of 6% per annum on a compound basis thereon into shares of the Company at the conversion price of HK\$1.00 per share (subject to adjustments and resets). The major terms of the CB due 2016 include, inter alia, a put option of the bondholders which is exercisable on the one and only one date of 28 January 2014 and a mandatory conversion option of the Company from 29 January 2014 up to the maturity date, details of which are set out in the Company’s circular dated 9 December 2010. On the maturity date, the outstanding amount of the CB due 2016 will be automatically redeemed by the Company at a redemption amount that provides the bondholders with an internal rate of return of 6% per annum on a compound basis on the principal amount of such convertible bonds calculated from the Issue Date to maturity.

(B) Unlisted Warrants

The Company issued 30 Unlisted Warrants at the issue price of HK\$0.03 per subscription right for one share attached to the Unlisted Warrants, each conferring right to subscribe for 2,000,000 shares of the Company at the initial subscription price of HK\$1.20 per share (subject to adjustments) at any time during the period from 28 January 2011 to 28 January 2016. An initial maximum of 60,000,000 shares will be allotted and issued upon full exercise of the Unlisted Warrants.

As at 30 June 2011, there were 779,765,216 ordinary shares in issue and potential ordinary shares arising from (i) a total of 48,670,000 share options outstanding (comprising 400,000 share options at the exercise price of HK\$0.55 per share and 48,270,000 share options at the exercise price of HK\$0.72 per share); (ii) the 3% coupon convertible bonds due in July 2011 in an aggregate outstanding principal amount of HK\$29,880,000 at the conversion price of HK\$0.90 per share (subject to adjustments), which was subsequently redeemed on maturity in July 2011; (iii) the CB due 2015 in an aggregate outstanding principal amount of HK\$663,000,000 at the conversion price of HK\$1.00 per share (subject to adjustments); (iv) the CB due 2016 in an aggregate outstanding accreted principal amount of approximately HK\$83,734,000 (being original principal of HK\$81,680,000 plus accrued interest of HK\$2,054,000) at the conversion price of HK\$1.00 per share (subject to adjustments and resets); and (v) unlisted warrants conferring rights to subscribe for 60,000,000 shares at the subscription price of HK\$1.20 per share.

Commitments

As at 30 June 2011, the Group had no significant outstanding contracted capital commitments.

Contingent liabilities

As at 30 June 2011, except for the uncertainty of financial liabilities in respect of corporate guarantees provided by a PRC subsidiary as detailed in the section headed “Extract of Independent Auditor’s Report on the Company’s Consolidated Financial Statements for the Year ended 30 June 2011” above, 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\$33.9 million with an average number of about 1,000 staff during the year ended 30 June 2011.

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. During the year ended 30 June 2011, no share option was granted to the relevant participants under the Scheme (2010: 48,970,000 share options were granted).

EVENTS AFTER THE REPORTING PERIOD

1. The 3% coupon convertible bonds due in July 2011 with an outstanding principal amount of HK\$29,880,000 were redeemed on maturity.
2. The Company was entitled to a compensation of HK\$120 million, being consideration adjustment arising from the profit guarantee given by one of the vendors in respect of the acquisition of Present Sino Group, upon publication of the audited results of the Company for the year ended 30 June 2011.
3. The Company is obliged to issue 28,000,000 new shares of the Company to the vendor in respect of the acquisition of Fast Base Group as settlement of the then contingent consideration, upon publication of the audited results of the Company for the year ended 30 June 2011.
4. A litigation against a subsidiary of the Company is pending trial by the court, the details of which is disclosed under the section headed “Extract of Independent Auditor’s Report on the Company’s Consolidated Financial Statements for the Year Ended 30 June 2011” above.

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 2011. 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 Company has, throughout the year ended 30 June 2011, complied 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 was of the view that the annual general meeting held in December 2010 was close to the extraordinary general meeting held on 15 October 2010. Hence, Mr. Wong Kin Tak who was appointed to fill the causal vacancy in March 2010 was retired and re-elected at the annual general meeting held in December 2010 instead of retiring at the extraordinary general meeting held on 15 October 2010.

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 2011.

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 2011 have been reviewed by the Audit Committee.

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, 30 September 2011