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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 2012**

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 2012, 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	
		2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Turnover	2	4,987,245	4,242,804
Cost of sales		<u>(4,719,802)</u>	<u>(3,981,200)</u>
Gross profit		267,443	261,604
Other revenue and other net income		65,102	35,695
Gain from compensation of shortfall of guaranteed profit arising from an acquisition		120,000	—
Gain from bargain purchases on acquisition of subsidiaries		—	217,285
Gain from change in fair value of derivative financial liabilities		24,917	40,817
Loss arising from change in fair value less costs to sell of biological assets		(7,543)	(34,679)
Distribution costs		(59,236)	(52,975)
Administrative expenses		(107,055)	(107,019)
Impairment loss on trade receivables		(12,867)	(13,075)
Loss on disposal of subsidiaries, net		(6,661)	(5,143)
Loss on disposal of biological assets		—	(121,569)
Profit from operations		284,100	220,941
Finance costs		(143,480)	(84,369)
Profit before taxation	3	140,620	136,572
Income tax	4	(5,132)	(6,317)
Profit for the year		<u>135,488</u>	<u>130,255</u>
Attributable to:			
— Owners of the Company		137,052	126,558
— Non-controlling interests		(1,564)	3,697
Profit for the year		<u>135,488</u>	<u>130,255</u>
Earnings per share	6		
— Basic		<u>HK16.12 cents</u>	<u>HK18.49 cents</u>
— Diluted		<u>HK16.12 cents</u>	<u>HK18.46 cents</u>

Consolidated Statement of Comprehensive Income

	Year ended 30 June	
	2012 HK\$'000	2011 HK\$'000
Profit for the year	135,488	130,255
Other comprehensive income for the year		
Exchange differences on translation of financial statements of subsidiaries in the PRC	24,495	87,933
Reclassification adjustment for exchange difference relating to disposal of subsidiaries in the PRC	(625)	(798)
	<u>23,870</u>	<u>87,135</u>
Income tax relating to components of other comprehensive income	—	—
	<u>—</u>	<u>—</u>
Other comprehensive income for the year, net of tax	23,870	87,135
	<u>23,870</u>	<u>87,135</u>
Total comprehensive income for the year	159,358	217,390
	<u>159,358</u>	<u>217,390</u>
Attributable to:		
Owners of the Company	160,922	213,611
Non-controlling interests	(1,564)	3,779
	<u>159,358</u>	<u>217,390</u>

Consolidated Statement of Financial Position

		At 30 June	
	Note	2012 HK\$'000	2011 HK\$'000
Non-current assets			
Property, plant and equipment		136,952	135,662
Lease premiums for land		11,218	11,476
Biological assets		972,790	883,536
Intangible assets		60,010	68,481
Goodwill		83,941	98,330
Available-for-sale financial assets		37,917	27,348
Other deposit		14,656	14,447
		<u>1,317,484</u>	<u>1,239,280</u>
Current assets			
Lease premiums for land		276	272
Inventories		88,068	100,520
Trade and other receivables	7	3,132,773	2,855,266
Trading securities		3,596	4,147
Restricted bank deposits		819,815	609,787
Cash and cash equivalents		210,640	178,514
		<u>4,255,168</u>	<u>3,748,506</u>
Current liabilities			
Trade and other payables	8	(2,402,261)	(2,004,660)
Bank loans		(693,523)	(674,977)
Tax payable		(47,476)	(51,379)
Derivative financial liabilities		(19,665)	(50,462)
Convertible bonds		—	(30,623)
Promissory notes		(193,349)	—
		<u>(3,356,274)</u>	<u>(2,812,101)</u>
Net current assets		<u>898,894</u>	<u>936,405</u>
Total assets less current liabilities		<u>2,216,378</u>	<u>2,175,685</u>
Non-current liabilities			
Bank loans		(1,388)	(14,447)
Convertible bonds		(552,375)	(544,244)
Deferred tax liabilities		(12,492)	(13,702)
Promissory notes		—	(182,016)
		<u>(566,255)</u>	<u>(754,409)</u>
NET ASSETS		<u>1,650,123</u>	<u>1,421,276</u>
CAPITAL AND RESERVES			
Share capital		94,777	77,977
Share premium and reserves		1,542,373	1,320,078
Total equity attributable to owners of the Company		<u>1,637,150</u>	<u>1,398,055</u>
Non-controlling interests		<u>12,973</u>	<u>23,221</u>
TOTAL EQUITY		<u>1,650,123</u>	<u>1,421,276</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 2012

	Trading operation HK\$'000	Manu- facturing operation HK\$'000	Consultancy operation HK\$'000	Non- agricultural resources trading operation HK\$'000	Seedling operation HK\$'000	Total HK\$'000
Revenue from external customers	3,516,561	247,913	25,373	1,142,476	54,922	4,987,245
Inter-segment revenue	<u>6,708</u>	<u>16,691</u>	<u>—</u>	<u>18,576</u>	<u>—</u>	<u>41,975</u>
Reportable segment revenue	<u>3,523,269</u>	<u>264,604</u>	<u>25,373</u>	<u>1,161,052</u>	<u>54,922</u>	<u>5,029,220</u>
Reportable segment profit/(loss) before taxation	<u>48,461</u>	<u>(9,792)</u>	<u>22,166</u>	<u>(3,480)</u>	<u>(910)</u>	<u>56,445</u>
Interest income	23,834	476	9	974	152	25,445
Finance costs	61,320	6,032	—	25,155	—	92,507

(ii) 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	<u>31,205</u>	<u>21,447</u>	<u>—</u>	<u>29,354</u>	<u>—</u>	<u>82,006</u>
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

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	
	2012	2011
	HK\$'000	HK\$'000
Interest on bank loans and other borrowings wholly repayable within five years	92,507	48,376
Interest on convertible bonds	39,640	28,520
Interest on promissory notes	11,333	7,473
	<hr/>	<hr/>
Total interest expense on financial liabilities not at fair value through profit or loss	143,480	84,369
Staff costs, including directors' emoluments [#]	36,483	33,946
Depreciation [#]	15,460	11,568
Amortisation [#]		
— lease premiums for land	442	203
— intangible assets	9,479	8,741
Cost of inventories [#]	4,719,802	3,981,200
Impairment loss on trade receivables	12,867	13,075
Auditor's remuneration		
— audit services of the current year	1,050	1,550
— under-provision for audit services of the last year	250	—
— other services	—	644
Loss on disposal of subsidiaries, net	6,661	5,143
Loss on disposal of property, plant and equipment	702	431
Loss on disposal of biological assets	—	121,569
Operating lease charges: minimum lease payments for land and buildings [#]	16,835	7,254
Interest income on financial assets not at fair value through profit or loss	(25,445)	(18,119)
Reversal of inventories	—	(5,847)
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[#] Cost of inventories includes approximately HK\$17,024,000 (2011: HK\$10,471,000) 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	
	2012	2011
	HK\$'000	HK\$'000
Current tax:		
— Hong Kong profits tax	—	—
— PRC Enterprise Income Tax	12,741	12,556
Over provision in respect of prior years:		
— PRC Enterprise Income Tax	(6,198)	(5,333)
Deferred tax:		
Credit to profit or loss	(1,411)	(906)
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	5,132	6,317
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The Company is exempted from taxation in the Cayman Islands until 2019.

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits arising in Hong Kong during the years ended 30 June 2012 and 2011.

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 the last year in respect of fair value of intangible assets identified and recognised, no deferred tax liabilities on dividend have been recognised, as the Company controls the dividend policy of its subsidiaries and it has been determined that the profits earned by the Company's certain PRC subsidiaries for the period from 1 January 2008 to 30 June 2012 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 2012 (2011: 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	
	2012	2011
	HK\$'000	HK\$'000
Earnings for the purpose of basic and diluted earnings per share	<u>137,052</u>	<u>126,558</u>

(b) Weighted average number of ordinary shares

	Number of shares	
	2012	2011
	'000	'000
Weighted average number of ordinary shares used in calculating basic earnings per share	850,295	684,478
Effect of dilutive potential shares arising from — share options	<u>—</u>	<u>1,217</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>850,295</u>	<u>685,695</u>

Convertible bonds and unlisted warrants had anti-dilutive effects on the basic earnings per share for the years ended 30 June 2011 and 2012.

7. Trade and other receivables

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

	At 30 June	
	2012	2011
	HK\$'000	HK\$'000
0–90 days	948,795	705,114
91–180 days	106,863	39,659
181–365 days	11,455	44,347
Over 365 days	12,595	7,746
	<u>1,079,708</u>	<u>796,866</u>
Less: allowance for doubtful debts	(12,867)	(13,075)
	<u>1,066,841</u>	<u>783,791</u>

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

8. Trade and other payables

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

	At 30 June	
	2012	2011
	HK\$'000	HK\$'000
Due within 1 month or on demand	487,358	385,103
Due after 1 month but within 2 months	382,728	311,865
Due after 2 months but within 3 months	289,806	246,807
Due after 3 months but within 6 months	900,073	762,481
Due after 6 months	23,386	33,610
	<u>2,083,351</u>	<u>1,739,866</u>

9. Comparative figures

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

CHAIRMAN'S STATEMENT

I am pleased to present to the shareholders the annual results of China Agrotech Holdings Limited ("China Agrotech" or the "Company") and its subsidiaries (collectively the "Group") for the year ended 30 June 2012 for their consideration.

Turnover and Profit

For the year ended 30 June 2012, the consolidated turnover of the Group was approximately HK\$4,987,245,000 (2011: HK\$4,242,804,000), representing a growth of approximately 18%; and the profit attributable to owners of the Company was approximately HK\$137,052,000 (2011: HK\$126,558,000), representing an increase of approximately 8%. 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 (for the last reporting period), 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 (for the last reporting period), net profit was approximately HK\$170,651,000 (2011: HK\$60,697,000), representing an increase of approximately 181%, which was mainly due to the record of a gain from compensation of shortfall of guaranteed profit arising from an acquisition amounted to HK\$120,000,000 during the year.

Business Review

During the year, the operating environment was considerably affected by uncertainties of both domestic and worldwide economic situation. Nevertheless, 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 about HK\$5 billion, representing a growth of about 18% over the last year. Moreover, the Group actively controlled its cost and inventory level, as well as made successful investments, and hence achieved satisfactory result, making our net profit (after excluding certain non-cashflow and one-off items) for the year increased by 181% to HK\$170,651,000.

For the year under review, the Group's distribution network demonstrated the effect of consolidation under the complex business environment and contributed to a record high of the Group's turnover. During the year, selling prices of agricultural resources products were comparable to the last year, nevertheless, the Group closely monitored the market trend of pricing and adjusted its product mix to accommodate the market demand. As a result, aggregate sales volume of fertilizers reached 1.19 million tonnes (2011: 1.12 million tonnes), representing an increase of about 6%. Coupled with the full year contribution from the pesticide manufacturer and seedling business acquired in the last year, the Group recorded a gross profit of approximately HK\$267 million (2011: HK\$262 million), representing a gentle increase of approximately 2% over the last year. Average gross profit margin of agricultural resources products that made up 76% of consolidated turnover decreased from approximately 6.1% last year to approximately 5.7% this year due to the increase in trading of pesticide products with relatively lower profit margin during the year.

As to individual product, due to the thin margin of nitrogenous fertilizer, the Group kept lesser 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 a steady rise, and has gathered growth momentum to the overall turnover and gross profit.

Corporate Strategies and Prospects

According to the No. 1 Document of the Central Government of Year 2012, the PRC government continued its policy on deepening the agricultural reform, increasing farmers' income and stepping up its efforts to address the "three rural (rural areas, farmers and agriculture) issues". In particular, the No. 1 Document emphasized the importance of agricultural technologies for a stable and continued development of agriculture and supply of agricultural produces, as well as the assurance of food safety for China. As such, the Central Government demonstrated its diligence to take every measure to increase the grain production and improve the agricultural technologies, which provides the Group with a favorable environment for development in the coming years.

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

Looking forward, in addition to the on-going pursuit of its centralized purchase and distribution policy and optimization of product mix in respect of its agricultural resources operation, the Group will actively strengthen strategic cooperation with upstream brandname suppliers to further explore quality resources thereby increasing its stability and sustainability. As to the seedling operation, the Group plans to cooperate with local governments in other provinces to develop new seedling plantation bases for landscaping seedlings, which the Group considers to be an industry with high growth potential.

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. The Group is also improving its capital structure, with an aim to ensure a stable debt financing structure in the medium to long term. 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 2012, the Group's consolidated turnover was approximately HK\$4,987,245,000 (2011: HK\$4,242,804,000) and profit attributable to owners of the Company was approximately HK\$137,052,000 (2011: HK\$126,558,000), representing a growth of about 18% and 8% respectively as compared to the last year. Net profit, excluding the impact of certain non-cashflow items (i.e. loss arising from change in fair value less costs to sell of biological assets, gain from bargain purchases on acquisition of subsidiaries (for the last reporting period), 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 (for the last reporting period), was approximately HK\$170,651,000 (2011: HK\$60,697,000), representing an increase of about 181%, which was mainly due to the record of a gain from compensation of shortfall of guaranteed profit arising from an acquisition amounted to HK\$120,000,000 during the year.

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

The increase in consolidated turnover of the Group for the year was mainly due to the increase in trading of agricultural resources products, especially pesticides, as well as non-agricultural resources products such as coal and industrial chemicals.

The overall gross profit margin of the Group decreased from approximately 6.2% last year to 5.4% this year. This was mainly due to the increase in trading of pesticide products with relatively lower margins.

The reportable segment profit of the Group was approximately HK\$56,445,000 (2011: HK\$54,163,000, excluding the one-off loss of HK\$121,569,000 on disposal of the whole biological assets of a plantation base) representing a growth of about 4%. This was mainly due to the increase in trading of agricultural resources products, though mitigated by the effect of increase in interest expense on bank borrowings.

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:

	2012		2011	
	Turnover HK\$'000	Percentage of the total turnover	Turnover HK\$'000	Percentage of the total turnover
Agricultural resources operation				
nitrogenous fertilizer	378,184	7%	347,406	8%
phosphorous fertilizer	629,669	13%	563,920	14%
potash fertilizer	725,082	15%	656,126	16%
compound fertilizer	1,276,694	26%	1,167,528	28%
pesticides	780,218	16%	473,952	12%
Agricultural resources products (subtotal)	3,789,847	77%	3,208,932	78%
Trading of non-agricultural resources products	1,142,476	23%	917,796	22%
Total	4,932,323	100%	4,126,728	100%

Aggregate sales volume of fertilizers, including nitrogenous fertilizer, phosphorous fertilizer, potash fertilizer and compound fertilizer, increased by about 6% from approximately 1,120,000 tonnes last year to approximately 1,190,000 tonnes this year. The aggregate turnover of fertilizers for this year was approximately HK\$3.010 billion, representing an increase of about 10% as compared to approximately HK\$2.735 billion last year.

For pesticides, turnover increased from approximately HK\$474 million last year to HK\$780 million this year, representing a sharp increase of about 65%.

Turnover for the trading of non-agricultural resources products increased from approximately HK\$918 million last year to approximately HK\$1.142 billion this year.

Aggregate gross profit and reportable segment profit before taxation from agricultural resources operation and trading of non-agricultural resources products amounted to approximately HK\$246.0 million (2011: HK\$222.4 million) and HK\$57.4 million (2011: HK\$57.2 million) respectively, representing an increase of approximately 11% and 0.3% respectively as compared to the last year. Overall gross profit margin from these businesses slightly decreased from approximately 5.4% last year to 5.0% this year, which was mainly attributable to the change of product mix of agricultural resources products during the year. Gross profit of agricultural resources operation increased from approximately HK\$195.4 million last year to approximately HK\$216.4 million this year, while gross profit of trading of non-agricultural resources products increased from approximately HK\$27.0 million last year

to approximately HK\$29.6 million this year. However, such increases were largely offset by the increase in interest expense on bank borrowings during the year, resulting in only a slight improvement of segment results.

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% (2011: 2.0%). Therefore, in order to better allocate the Group's working capital resources and minimize operational risks, the Group kept lesser trading of nitrogenous fertilizer in recent years and therefore, the sales volume of approximately 180,000 tonnes (2011: 170,000 tonnes) accounted for only 15% of the total sales volume of fertilizers, while turnover increased by 9% to HK\$378 million (2011: HK\$347 million) due to increase in sales volume.

(2) Phosphorous fertilizer

During the financial year under review, the market demand for phosphorous fertilizer was comparable to 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 380,000 tonnes (2011: 360,000 tonnes), while turnover increased by 12% to HK\$630 million (2011: HK\$564 million) due to increases in sales volume and selling price. Gross profit margin was comparable to the last year and maintained at approximately 4.6%.

(3) Potash fertilizer

During the year, the market demand for potash fertilizer was comparable to the last year. 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 increased by 6% to 190,000 tonnes (2011: 180,000 tonnes) while turnover increased by 11% to approximately HK\$725 million (2011: HK\$656 million) due to increase in selling price. Gross profit margin slightly increased from approximately 4.4% last year to 4.5% 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 410,000 tonnes last year to approximately 440,000 tonnes this year. Turnover increased by 9% to approximately HK\$1.277 billion (2011: HK\$1.168 billion) while gross profit margin decreased from approximately 6.2% last year to 5.6% this year due to change of product mix and decrease in market prices of compound fertilizers during the year.

(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, the Group increased the trading of products sourced outside with relatively lower profit margins, hence, turnover sharply increased by 65% to approximately HK\$780 million this year (2011: HK\$474 million). Consequently, the average gross profit margin of pesticides decreased from approximately 12.9% last year to 9.7% this year.

Trading of Non-Agricultural Resources Products

For the trading of non-agricultural resources products, the increase in turnover was mainly due to the increase in trading of coal and industrial chemicals. 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 about 24% to approximately HK\$1.142 billion (2011: HK\$918 million) and gross profit increased by about 10% to approximately HK\$29.6 million (2011: HK\$27.0 million) this year, while gross profit margin decreased from approximately 2.9% last year to 2.6% this year. However, due to the increase in finance cost, the trading of non-agricultural resources products recorded a segment loss of approximately HK\$3.5 million for the year (2011: loss of HK\$1.3 million).

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. During the year, Shanxi Astro-wood contributed a turnover and net profit of approximately HK\$54.9 million (2011: HK\$116.0 million) and HK\$6.6 million (2011: HK\$31.6 million) respectively to the Group from ordinary sales of seedlings (excluding loss arising from change in fair value less costs to sell of biological assets and the one-off loss on disposal of all biological assets of a plantation base in the last year). Such decreases were mainly due to the one-off sale of all small seedlings of whitebark pines of a plantation base in the last year, resulting in decrease in sales of whitebark pines in this year.

Moreover, as the seedling business failed to achieve the target profit for the year ended 30 June 2011 as stipulated in the sale and purchase agreement for such acquisition, one of vendors, being the guarantor for the target profit, was obliged to pay the Company a compensation amounted to HK\$120 million which was recorded by the Company as an unallocated other income ("Gain from compensation of shortfall of guaranteed profit arising from an acquisition") during the year.

Looking forward, the Group will strive to adjust the seedlings product mix in order to improve the performance of the seedling operation.

As detailed in the Company's announcements dated 27 February 2012 and 1 March 2012, the plaintiff applied to the court for withdrawal of the suit against Shanxi Astro-wood in respect of a plantation base, which was permitted by the court on 22 February 2012 and the relevant

seal-up order against the plantation base was also unwind by the court on 27 February 2012. Accordingly, Shanxi Astro-wood resumed all its rights to the plantation base with effect from 27 February 2012.

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 2012, cash and cash equivalents and restricted bank deposits of approximately HK\$1,030,455,000 included HK\$1,834,000 which was denominated in Hong Kong dollars, HK\$19,127,000 which was denominated in US/Euro dollars and HK\$1,009,494,000 which was denominated in Renminbi.

With respect to foreign exchange exposure, as the Group's earnings and borrowings are primarily denominated in Renminbi and the exchange rates between Renminbi and Hong Kong/US dollar remained steady during the year under review, it has no significant exposure to foreign exchange rate fluctuations. During the year under review, the Group had not used any financial instruments for hedging purposes.

During the year, the Company successfully raised funds from issue and subsequent exercise of unlisted warrants, which amounted to an aggregate net proceeds of approximately HK\$40.9 million. The funds raised were used as general working capital of the Group.

Indebtedness and Banking Facilities

As at 30 June 2012, the Group had bank borrowings of approximately HK\$694,911,000 (approximately HK\$578,447,000 was denominated in Renminbi and approximately HK\$116,464,000 was denominated in US/Euro dollars) bearing interest at rates ranging from approximately 2.8% to 11.8% per annum. As at 30 June 2012, the Group had bills payable of approximately HK\$1.903 billion which was secured by pledged bank deposits of approximately HK\$809 million.

As at 30 June 2012, the Group had (i) convertible bonds (due in November 2015) and promissory notes (due in December 2012) with outstanding principal amount of HK\$623 million and HK\$200 million respectively, both were denominated in Hong Kong dollars and non-interest bearing; and (ii) convertible bonds (due in January 2016) with outstanding principal amount of RMB70 million which was denominated in Renminbi and bore a yield-on-maturity/redemption of 6% per annum on a compound basis.

As at 30 June 2012, the Group's gearing ratio was approximately 88%. 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 2012. The Directors, taking into account of the nature and scale of operations and capital structure of the Group, considered that the gearing ratio as at 30 June 2012 was healthy.

Securities in Issue

On 28 November 2011, the Company issued 100,000,000 warrants (“2013 Unlisted Warrants”) at the issue price of HK\$0.01 per warrant pursuant to a subscription agreement dated 17 November 2011. The warrant holder has the right to exercise the subscription rights attaching to the warrants, in whole or in part, at the subscription price of HK\$0.40 per subscription share at any time within 18 months commencing from the date of issue of the warrants. The warrants were not listed on The Stock Exchange of Hong Kong Limited or any other stock exchanges. The net proceeds of approximately HK\$0.9 million from the issue of the warrants were used as general working capital of the Group. The 2013 Unlisted Warrants were fully exercised during the year and the proceeds of HK\$40 million raised were used as general working capital of the Group.

During the year:

1. the Company redeemed upon maturity of the convertible bonds (due in July 2011) of their outstanding principal amount of HK\$29,880,000 on 25 July 2011.
2. on 12 October 2011, pursuant to the sale and purchase agreement dated 29 October 2010 in relation to the acquisition of the entire interests of Fast Base Holdings Limited and its subsidiaries, 28,000,000 consideration shares were issued by the Company.
3. the convertible bonds (due in November 2015) with an aggregate principal amount of HK\$40,000,000 were converted into 40,000,000 shares of the Company at the conversion price of HK\$1.00 each.
4. on 30 December 2011, 400,000 and 48,270,000 share options both granted under the share option scheme adopted by the Company on 31 December 2001 at an exercise price of HK\$0.55 and HK\$0.72 respectively per share were lapsed due to the expiration of the option period.

As at 30 June 2012, there were 947,765,216 ordinary shares in issue and potential ordinary shares arising from (i) the convertible bonds (due in November 2015) in an aggregate outstanding principal amount of HK\$623,000,000 at the conversion price of HK\$1.00 per share (subject to adjustments); (ii) the convertible bonds (due in January 2016) in an aggregate outstanding accreted principal amount of approximately HK\$88,767,000 (being original principal of HK\$81,680,000 plus accrued interest of HK\$7,087,000) at the reset conversion price of HK\$0.70 per share (subject to adjustments); and (iii) unlisted warrants (to be expired in January 2016) conferring rights to subscribe for 60,000,000 shares at the subscription price of HK\$1.20 per share.

Save as disclosed above, there was no movement in the issued share capital of the Company during the year ended 30 June 2012.

Commitments

As at 30 June 2012, the Group had no significant outstanding contracted capital commitments.

Contingent Liabilities

As at 30 June 2012, the Group had no material contingent liabilities.

Remuneration Policies and Share Option Scheme

The Group incurred total salaries and other remunerations of approximately HK\$36.5 million with an average number of about 1,000 staff during the year ended 30 June 2012.

Remuneration packages comprise salary, mandatory provident fund and year-end bonus based on individual merits. The share option scheme adopted by the Company on 31 December 2001 (the “Scheme”) had expired by effluxion of time on 30 December 2011. During the year ended 30 June 2012, no share option was granted to the relevant participants under the Scheme (2011: nil).

EVENTS AFTER THE REPORTING PERIOD

1. The Company is entitled to a compensation of HK\$150 million, being consideration adjustment arising from the profit guarantee given by one of the vendors in respect of the acquisition of Present Sino Limited, upon publication of the audited results of the Company for the year ended 30 June 2012.
2. The Company is obliged to issue 40,000,000 new shares of the Company to the vendor in respect of the acquisition of Fast Base Holdings Limited as settlement of the then contingent consideration, upon publication of the audited results of the Company for the year ended 30 June 2012.
3. In September 2012, the Group pledged all the biological assets of a plantation base with a total fair value less costs to sell of approximately HK\$871 million as at 30 June 2012, as security for a loan amounted to approximately HK\$183 million.

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 2012. Neither the Company nor any of its subsidiaries purchased or sold any of the Company’s listed securities during the year.

CORPORATE GOVERNANCE CODE

The Company has, throughout the year ended 30 June 2012, complied with the respective code provisions of the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (the “CG Code”) (effective from 1 April 2012) 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 its 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. Upon the resignation of Mr. Lam Ming Yung as an Independent Non-executive Director of the Company on 15 December 2011, Mr. Li Yik Sang was appointed as an Independent Non-executive Director of the Company on the same date and entered into a letter of appointment with the Company for a term of one year. The Company has complied with code provision A.4.1 since 15 December 2011.
3. Under code provision A.4.2 of the CG Code, any directors appointed to fill casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Pursuant to the Articles of Association of the Company, any directors appointed to fill casual vacancy shall hold office until the next following annual general meeting. The Board was of the view that Mr. Li Yik Sang and Ms. Chen Xiao Fang, who were respectively appointed by the Board as Directors of the Company on 15 December 2011 in place of Mr. Lam Ming Yung and on 26 April 2012 in place of Mr. Yang Zhuoya, will retire and offer themselves for re-election at the forthcoming annual general meeting instead of retiring at the extraordinary general meeting held on 15 June 2012, are in compliance with the Company's Articles of Association.

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 2012.

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 2012 have been reviewed by the Audit Committee.

GENERAL

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

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

Hong Kong, 27 September 2012