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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)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2008**

The Directors of China Agrotech Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 31st December, 2008 together with the comparative figures for the corresponding period in 2007 as set out below. This interim results announcement has been reviewed by the Company’s audit committee.

\* For identification purposes only

## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	<i>Note</i>	<b>Six months ended</b>	
		<b>31st December,</b>	
		<b>2008</b>	<b>2007</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	1,488,500	1,217,066
Cost of sales		<u>(1,356,409)</u>	<u>(1,099,029)</u>
Gross profit		132,091	118,037
Decrease in fair value of investment properties		(2,956)	–
Other income		10,460	15,294
Distribution costs		(49,006)	(45,749)
Administrative expenses		<u>(30,827)</u>	<u>(36,236)</u>
Profit from operations		59,762	51,346
Finance costs		<u>(34,236)</u>	<u>(19,698)</u>
Profit before taxation	3	25,526	31,648
Income tax	4	<u>(4,676)</u>	<u>(2,422)</u>
Profit for the period		<u>20,850</u>	<u>29,226</u>
Attributable to:			
– Equity holders of the Company		20,346	30,621
– Minority interests		<u>504</u>	<u>(1,395)</u>
Profit for the period		<u>20,850</u>	<u>29,226</u>
Dividends	5	<u>–</u>	<u>12,734</u>
Earnings per share	6		
– Basic		<u>HK4.15 cents</u>	<u>HK6.3 cents</u>
– Diluted		<u>HK4.15 cents</u>	<u>HK6.1 cents</u>

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

		At 31st December, 2008	At 30th June, 2008
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		56,192	53,439
Investment properties		22,770	25,726
Lease premiums for land		10,103	10,263
Intangible assets		140,010	146,301
		229,075	235,729
<b>CURRENT ASSETS</b>			
Trading securities		1,091	1,091
Inventories		347,391	321,869
Lease premiums for land		317	317
Trade and other receivables	7	1,564,026	1,388,487
Restricted bank deposits		315,608	211,416
Cash and bank balances		162,046	192,433
		2,390,479	2,115,613
<b>CURRENT LIABILITIES</b>			
Trade and other payables	8	(1,486,319)	(1,235,700)
Bank loans		(385,492)	(388,091)
Provision for taxation		(30,639)	(30,954)
		(1,902,450)	(1,654,745)
Net current assets		488,029	460,868
<b>NET ASSETS</b>		<b>717,104</b>	<b>696,597</b>
<b>CAPITAL AND RESERVES</b>			
Share capital		48,977	48,977
Reserves		650,319	629,973
		699,296	678,950
Total equity attributable to equity holders of the company		699,296	678,950
Minority interests		17,808	17,647
<b>TOTAL EQUITY</b>		<b>717,104</b>	<b>696,597</b>

Note:

## 1. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The interim accounts are prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (as applicable to condensed interim accounts) and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The condensed interim accounts have been prepared under the historical cost convention except for investment properties, which are measured at fair value.

The principal accounting policies used in the preparation of these condensed interim accounts are consistent with those used in the Group’s annual accounts for the year ended 30th June, 2008.

## 2. SEGMENT INFORMATION

### a. Primary reporting format-business segments

The Group is principally engaged in: (i) the trading of fertilisers, pesticides and other agricultural resources products (the “trading operation”); (ii) the manufacturing and selling of plant growth regulatory products (“PGR(s)”), pesticides and fertilisers (the “manufacturing operation”); (iii) the provision of plant protection technical services (the “consultancy operation”); and (iv) the trading of non-agricultural resources products (“non-agricultural resources trading operation”) in Mainland China.

An analysis of the Group’s turnover and segment results is as follows:

(i) For the six months ended 31st December, 2008

	Trading operation HK\$’000	Manufacturing operation HK\$’000	Consultancy operation HK\$’000	Non- agricultural resources trading operations HK\$’000	Elimination HK\$’000	Group HK\$’000
Turnover						
External sales	1,064,503	120,313	12,349	291,335		1,488,500
Inter-segment sales	30,449	10,429	335	48,511	(89,724)	–
	<u>1,094,952</u>	<u>130,742</u>	<u>12,684</u>	<u>339,846</u>		<u>1,488,500</u>
Segment results	<u>31,337</u>	<u>16,144</u>	<u>9,275</u>	<u>4,307</u>		61,063
Interest income						5,189
Unallocated corporate operating expenses						<u>(6,490)</u>
Profit from operations						59,762
Finance costs						<u>(34,236)</u>
Income tax						<u>(4,676)</u>
Profit for the period						<u>20,850</u>

(ii) For the six months ended 31st December, 2007

	Trading operation <i>HK\$'000</i>	Manufacturing operation <i>HK\$'000</i>	Consultancy operation <i>HK\$'000</i>	Non- agricultural resources trading operation <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover						
External sales	743,751	87,572	20,372	365,371		1,217,066
Inter-segment sales	10,908	16,368	2,717	4,156	(34,149)	–
	<u>754,659</u>	<u>103,940</u>	<u>23,089</u>	<u>369,527</u>		<u>1,217,066</u>
Segment results	<u>12,260</u>	<u>12,658</u>	<u>15,640</u>	<u>3,733</u>		44,291
Interest income						11,320
Unallocated corporate operating expenses						<u>(4,265)</u>
Profit from operations						51,346
Finance costs						(19,698)
Income tax						<u>(2,422)</u>
Profit for the period						<u>29,226</u>

**b. Secondary reporting format-geographical segments**

The Group's operations are primarily in Mainland China and all of the Group's turnover is attributable to business conducted in Mainland China. Consequently, no geographical segment analysis is presented.

### 3. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging and crediting the following items:

	<b>Six months ended</b>	
	<b>31st December,</b>	
	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
After charging:–		
Staff costs (including directors' emoluments)	14,589	11,493
Amortisation of intangible assets		
– System development costs	–	3,298
– Product development costs	2,278	1,556
– Technical know-how	4,013	8,591
Operating lease rentals of premises	2,231	1,595
Interest on bank and other borrowings wholly repayable within five years	34,236	19,698
Depreciation of property, plant and equipment	2,903	4,464
Amortisation of lease premiums for land	160	150
	<u>          </u>	<u>          </u>
After crediting:–		
Bank and other interest income	<u>5,189</u>	<u>11,320</u>

### 4. INCOME TAX

The Company is exempted from taxation in the Cayman Islands until 2019. No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong.

Taxation for the current period represented Mainland China enterprise income tax charged on the estimated assessable profits of the Company's subsidiaries established in the Mainland China. On 16th March, 2007, the National People's Congress approved the Corporate Income Tax of the Mainland China (the "new CIT law"). The new CIT law unifies the corporate income tax for domestic and foreign enterprises at 25% with effect from 1st January, 2008. Entities which are entitled to special incentive may continue to enjoy the given concessions, if applicable.

For the last financial period, Domestic enterprises of Mainland China were subjected to corporate income tax rates ranging from 18% to 33%. Productive foreign investment enterprises established in the special economic zones of Fujian, Mainland China were subjected to preferential corporate income tax rates ranging from 15% to 30%.

There was no material unprovided deferred taxation for both interim periods.

## 5. DIVIDENDS

	<b>Six months ended</b>	
	<b>31st December,</b>	
	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend	–	12,734

At the annual general meeting of the Company held on 7th December, 2007, final dividend for the year ended 30th June, 2007 of HK\$0.026 per ordinary share was declared. The dividend was paid on 10th January, 2008 and the amount was reflected as appropriation of retained earnings for the six months ended 31st December, 2007.

The Directors have resolved not to declare any interim dividend for the six months ended 31st December, 2008 (2007: nil).

## 6. EARNINGS PER SHARE

The calculations of basic earnings per share for the six months ended 31st December, 2008 is based on the unaudited consolidated profit attributable to the equity holders of the Company of approximately HK\$20,346,000 (2007: HK\$30,621,000) and the weighted average number of approximately 489,765,000 shares (2007: 489,765,000 shares) in issue during the six months ended 31st December, 2008.

The calculation of diluted earnings per share for the six months ended 31st December, 2008 was based on the unaudited consolidated profit attributable to the equity holders of the Company of approximately HK\$20,346,000 (2007: HK\$30,621,000) and the weighted average number of ordinary shares of 489,765,000 (2007: 499,806,000 shares) as adjusted for the effect of all dilutive potential shares under the Company's share options scheme and unlisted warrants. The effect of dilutive potential shares on the average number of shares in issue during the period has approximately nil shares (2007: 10,041,000 shares), which were deemed to have been issued at no consideration as if all the outstanding options and unlisted warrants had been exercised on the date when the options and unlisted warrants were becoming exercisable.

## 7. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors and bills receivables (net of allowances for doubtful debts) with the following ageing analysis as of the balance sheet date:

	<b>At</b>	<b>At</b>
	<b>31st December,</b>	<b>30th June,</b>
	<b>2008</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within credit period	460,757	368,439
Past due within 6 months	58,110	23,171
Past due more than 6 months but within 18 months	7,465	14,130
	<u>526,332</u>	<u>405,740</u>

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

## 8. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	<b>At 31st December, 2008</b>	<b>At 30th June, 2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	322,191	289,640
Over 1 month but within 2 months	194,919	187,464
Over 2 months but within 3 months	276,829	169,344
Over 3 months but within 6 months	425,019	349,786
Over 6 months	19,244	28,508
	<hr/>	<hr/>
	<b>1,238,202</b>	<b>1,024,742</b>
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## 9. COMPARATIVE FIGURES

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

## BUSINESS REVIEW AND OUTLOOK

### Overall Results

For the six months ended 31st December, 2008, the Group's consolidated turnover was approximately HK\$1,488,500,000 (2007: HK\$1,217,066,000) and net profit attributable to equity holders of the Company was approximately HK\$20,346,000 (2007: HK\$30,621,000), representing a growth of about 22% and a decline of about 34% respectively as compared to those of the last financial period.

The Group's business can be divided into two categories, namely, agricultural resources operation and trading of non-agricultural resources products. Agricultural resources operation includes manufacturing and selling, purchase and distribution of agricultural resources products, as well as the provision of plant protection and consulting services for the related products.



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

	Six months ended 31st December, 2008		2007	
	Turnover <i>HK\$'000</i>	Percentage of the total turnover	Turnover <i>HK\$'000</i>	Percentage of the total turnover
Agricultural resources operation				
nitrogenous fertiliser	191,641	13%	220,598	18%
phosphorous fertiliser	188,544	13%	115,618	9%
potash fertiliser	355,910	24%	92,245	8%
compound fertiliser	333,913	22%	254,434	21%
pesticides	127,157	8%	168,800	14%
Agricultural resources products (subtotal)	1,197,165	80%	851,695	70%
Trading of non-agricultural resources products	291,335	20%	365,371	30%
Total	<u>1,488,500</u>	<u>100%</u>	<u>1,217,066</u>	<u>100%</u>

Aggregate sales volume of fertilisers, including nitrogenous fertiliser, phosphorous fertiliser, potash fertiliser and compound fertiliser, increased by about 26% from approximately 355,000 tonnes last period to approximately 448,000 tonnes this period. The aggregate turnover of fertilizers for this period was approximately HK\$1,070 million, representing a growth of 57% compared to approximately HK\$683 million last period.

For pesticides, turnover decreased by 25% from approximately HK\$169 million last period to approximately HK\$127 million this period.

Turnover for trading of non-agricultural resources product decreased by 20% from approximately HK\$365 million last period to approximately HK\$291 million this period.

Gross profit for the period amounted to approximately HK\$132 million and net profit attributable to shareholders of the Company was approximately HK\$20.3 million, representing a growth of approximately 12% and a decline of approximately 34% respectively as compared to the previous period. Gross profit margin in general slightly decreased from approximately 9.7% last period to approximately 8.9% this period. The overall decrease in gross profit margin was mainly attributable to the rapid drop in selling prices of agricultural resources products during the fourth quarter of 2008 as a result of drastic economic downturn, which offset the rising trend of product prices in the third quarter of 2008. Nevertheless, the gross profit of agricultural resources operation was increased from approximately HK\$89.5 million last period to approximately HK\$115.9 million this period.

## **Agricultural Resources Operation**

### *(1) Nitrogenous fertiliser*

Being the most commonly used fertilizer, the supply of nitrogenous fertilizers outstrips its demand, characterizing the trading environment as volume-oriented with thin gross profit margin. During the period under review, the trading profit margin was even thinner in the market and the Group recorded a gross profit margin of approximately 3.3% (2007: 3.6%). Therefore, in order to better allocate the Group's working capital resources and minimize operational risks, the Group reduced the trading of nitrogenous fertilizer and therefore, the sales volume decreased to approximately 101,000 tonnes (2007: 124,000 tonnes) while turnover decreased by 13% to HK\$192 million (2007: HK\$221 million).

### *(2) Phosphorous fertiliser*

Although the gradual increase in the production capacity of phosphorous fertiliser in the PRC has basically met the market demand, the supply of phosphorous is becoming scarce. The Group leveraged on the advantage of having its own phosphorous fertiliser plant and adjusted the product mix of phosphorous fertiliser by increasing the production and distribution of high density phosphorous fertiliser and decreasing that of low density phosphorous fertiliser. As a result, sales volume of phosphorous fertiliser sharply increased by 60% to approximately 136,000 tonnes (2007: 85,000 tonnes), turnover increased by 63% to HK\$189 million (2007: HK\$116 million) and the gross profit margin increased from 9.2% last period to 12.0% this period.

### *(3) Potash fertiliser*

Being a scarce resource, over 70% of potash fertiliser in the PRC is imported with continuing surge in market price. During the period, the Group continued to leverage on the advantages of central purchase and its own network to expand the operation of potash fertiliser, especially those from Russia. The Group also successfully captured the rising trend of potash fertiliser price during the third quarter of 2008 and implemented corresponding storage and sales strategies in order to maximize the profit margin during the period. Therefore, sales volume and turnover of potash fertiliser for the period greatly increased by 101% and 286% to 80,000 tonnes (2007: 40,000 tonnes) and HK\$356 million (2007: HK\$92 million) respectively. Gross profit margin was also improved to approximately 7.9% (2007: 5.5%).

### *(4) Compound fertiliser*

The Group provides specific compound fertiliser for different crops through its own production or procurement. During the period, the Group adjusted the product mix and increased the sales of compound fertiliser products to accommodate market demand. Sales volume increased from approximately 106,000 tonnes last period to approximately 131,000 tonnes this period. Turnover increased by 31% to approximately HK\$334 million (2007: HK\$254 million). Gross profit margin slightly decreased from approximately 12.1% last period to approximately 11.5% this period.

## *(5) Pesticides*

For pesticides, the Group has a large variety of high-value-added pesticide products which are developed with different research institutes. Those pesticide products are either manufactured by the Group's own plants or through procurement and distribution. Turnover for the period decreased by 25% to approximately HK\$127 million (2007: HK\$169 million) due to the scale-down of production in view of the increasing pressure on production cost of pesticides which cannot be fully passed to customers. Consequently, the average gross profit margin of pesticides decreased from approximately 20.9% last period to approximately 16.0% this period.

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

For non-agricultural resources products trading, orders were decreased due to worldwide economic downturn, hence turnover and gross profit decreased by 20% and 43% to approximately HK\$291 million (2007: HK\$365 million) and HK\$16.2 million (2007: HK\$28.5 million) respectively this period.

Gross profit margin also decreased from approximately 7.8% last period to approximately 5.6% this period due to rapid drop in market prices of commodities and resources products during the fourth quarter of 2008.

### **Corporate Strategies and Prospects**

The sudden accelerated deterioration of the global financial markets in the fourth quarter of 2008 had put the world economy to severe test, and resulted in drastic drop of prices of commodity and resources products worldwide, which in turn affected those product prices in China including those in the agricultural sector. In view of the difficult situation, the China government implemented and strengthened many supportive and incentive policies for the agriculture since early 2009. These policies include increasing investment in agriculture and rural areas, increasing subsidies to farmers, maintaining price stableness of agricultural produce, as well as accelerating the mechanization of agriculture.

Moreover, the China government also abolished the price control measures on chemical fertilizers and maintained the incentive policies for chemical fertilizer manufacturers such as price incentive for railway transportation and use of electricity and gas for production of fertilizers. These supportive policies are beneficial for the long term development of the agricultural resources industry and will provide a favourable business environment for the Group.

Looking forward, apart from continuing with the Group's centralised purchase and distribution strategy and product mix adjustment, the Group will also strive to develop the upper stream business, strengthen the resources supply chains and further lower the operation costs, as well as strengthening the strategic partnerships with upstream brand-names suppliers in order to explore high quality resources and increase the operation of products with high profit margins. The Group will also continue to deepen the distribution channels of its products and expand its distribution network to the North-eastern and the Southern China. The Group is optimistic that the distribution platform of the Group built up over the years will further realize its value and maximise its contribution to the Group.

## **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 31st December, 2008, the aggregated cash and bank balances and restricted bank deposits of HK\$477,654,000 included HK\$325,000 which was denominated in Hong Kong dollars, HK\$694,000 which was denominated in US dollars and HK\$476,635,000 which was denominated in Renminbi.

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

### **Borrowings and banking facilities**

As at 31st December, 2008, the Group had bank borrowings of HK\$385,492,000 which were denominated in Renminbi and bore interest at rates ranging from approximately 5.9% to 9.7% per annum. As at 31st December, 2008, the Group had bills payable of approximately HK\$974,805,000 which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of the Group of approximately HK\$315,608,000 which were also denominated in Renminbi.

As at 31st December, 2008, the Group maintained a gearing ratio of approximately 55%. This is based on the division of the total amount of bank loans by equity attributable to equity holders of the Company as at 31st December, 2008. The Directors considered that the gearing ratio as at 31st December, 2008 was healthy, taking into account of the nature and scale of operations of the Group.

### **Commitments**

As at 31st December, 2008, the Group had no significant outstanding contracted capital commitments, as well as operating lease commitments of approximately HK\$6,976,000.

### **Contingent liabilities**

As at 31st December, 2008, the Group had no material contingent liabilities.

### **Remuneration policies and share option scheme**

The Group incurred total salaries and other remunerations of approximately HK\$14.6 million with an average number of about 1,000 staff during the six months ended 31st December, 2008.

Remuneration packages comprised salary, mandatory provident fund and year-end bonus based on individual merits. A share option scheme (the “Share Option Scheme”) was adopted by the Company pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31st December, 2001 and its limit was refreshed on 1st March, 2006 and 11th February, 2009. During the six months period ended 31st December, 2008, no options were granted to the relevant participants under the Share Option Scheme (2007: nil).

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

The Company did not redeem any of its listed securities during the six months ended 31st December, 2008. Neither the Company nor any of its subsidiaries purchased or sold any of the Company’s listed securities during the six months ended 31st December, 2008.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the Directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (“CG Code”) throughout the six months ended 31st December, 2008, except for the following deviations:

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

## **AUDIT COMMITTEE**

The Audit Committee comprises Mr. Lam Ming Yung, Mr. Zhang Shaosheng and Mr. Wong Chi Wai, the three independent non-executive directors of the Company. The Audit Committee has reviewed with the Company’s managements, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including review of the unaudited interim accounts of the Group for the six months ended 31st December, 2008.

## **REMUNERATION COMMITTEE**

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

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard set out in the Model Code regarding securities transactions by directors during the six months ended 31st December, 2008.

## **GENERAL**

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

On behalf of the Board  
**Wu Shaoning**  
*Chairman*

Hong Kong, 26th March, 2009