



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: 1073)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2006

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, 2006 together with the comparative figures for the corresponding period in 2005 as set out below. This interim results announcement has been reviewed by the Company’s audit committee.

Consolidated Income Statement (unaudited)

	Note	Six months ended 31st December,	
		2006 HK\$'000	2005 HK\$'000
Turnover	2	752,688	1,086,557
Cost of sales		(671,421)	(1,034,490)
Gross profit		81,267	52,067
Other revenues		10,598	4,707
Selling and distribution expenses		(20,625)	(18,186)
General and administrative expenses		(38,680)	(20,686)
Profit from operations		32,560	17,902
Finance costs		(13,237)	(5,983)
Profit before taxation	3	19,323	11,919
Taxation	4	(212)	(111)
Net profit for the period		19,111	11,808
Net profit/(loss) attributable to:			
Equity holders of the Company		22,550	14,315
Minority interests		(3,439)	(2,507)
		19,111	11,808
Earnings per share for profit attributable to the equity holders of the Company during the period	5		
– Basic		HK5.2 cents	HK3.4 cents
– Diluted		HK5.1 cents	N/A

* for identification purpose only

Consolidated Balance Sheet (unaudited)

	Note	At 31st December, 2006 HK\$'000	At 30th June, 2006 HK\$'000
NON-CURRENT ASSETS			
System development costs		7,591	11,909
Goodwill		81,230	79,653
Other intangible assets		49,573	58,185
Property, plant and equipment		39,879	40,865
Investment property		26,346	25,834
Lease premium for land		8,840	12,830
		<u>213,459</u>	<u>229,276</u>
CURRENT ASSETS			
Inventories		206,606	171,729
Current portion of lease premium for land		250	340
Other receivables, deposit and prepayments		603,806	461,185
Trade and bills receivables	6	192,560	218,363
Financial assets at fair value through profit or loss		149	631
Restricted bank deposits		150,311	209,852
Cash and bank balances		136,153	145,802
		<u>1,289,835</u>	<u>1,208,902</u>
CURRENT LIABILITIES			
Trade and bills payable	7	(603,121)	(674,462)
Accruals and other payables		(178,129)	(127,819)
Taxation payable		(9,988)	(9,960)
Due to a director		-	(332)
Current portion of interest-bearing and secured bank loans		(239,957)	(200,559)
		<u>(1,031,195)</u>	<u>(1,013,132)</u>
Total current liabilities		<u>(1,031,195)</u>	<u>(1,013,132)</u>
Net current assets		<u>258,640</u>	<u>195,770</u>
Total assets less current liabilities		<u>472,099</u>	<u>425,046</u>
Non-current liabilities		-	(971)
Interest-bearing and secured bank loans		-	(971)
		<u>-</u>	<u>(971)</u>
NET ASSETS		<u>472,099</u>	<u>424,075</u>
CAPITAL AND RESERVES			
Share capital		46,467	42,157
Reserves		422,748	375,605
		<u>469,215</u>	<u>417,762</u>
Total equity attributable to equity holders of the company		<u>469,215</u>	<u>417,762</u>
Minority interests		2,884	6,313
		<u>2,884</u>	<u>6,313</u>
TOTAL EQUITY		<u>472,099</u>	<u>424,075</u>

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 property, which is 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, 2006.

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, 2006

	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	435,588	98,616	17,677	200,807		752,688
Inter-segment sales	18,589	12,597	2,773	117	(34,076)	-
	<u>454,177</u>	<u>111,213</u>	<u>20,450</u>	<u>200,924</u>		<u>752,688</u>
Segment results	<u>(6,400)</u>	<u>20,209</u>	<u>9,440</u>	<u>3,646</u>		26,895
Unallocated corporate expenses						(4,386)
Operating profit						22,509
Interest income						10,051
Finance costs						(13,237)
Taxation						(212)
Net profit for the period						<u>19,111</u>

(ii) For the six months ended 31st December, 2005 (restated)

	Trading operation HK\$'000	Manufacturing operation HK\$'000	Consultancy operation HK\$'000	Non-agricultural resources trading operation HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover						
External sales	643,909	104,050	4,559	334,039		1,086,557
Inter-segment sales	4,756	6,144	3,061	–	(13,961)	–
	<u>648,665</u>	<u>110,194</u>	<u>7,620</u>	<u>334,039</u>		<u>1,086,557</u>
Segment results	<u>(7,487)</u>	<u>22,182</u>	<u>1,028</u>	<u>880</u>		<u>16,603</u>
Unallocated corporate expenses						<u>(3,349)</u>
Operating profit						13,254
Interest income						4,648
Finance costs						(5,983)
Taxation						(111)
Net profit for the period						<u>11,808</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:

	Six months ended 31st December,	
	2006 HK\$'000	2005 HK\$'000
After charging:–		
Staff costs (including directors' emoluments)	9,975	7,663
Fair value of share-based payments in respect of share options granted to employees	2,386	1,443
Amortisation of intangible assets		
– System development costs	4,554	4,423
– Product development costs	1,133	2,271
– Technical know-how	8,631	8,136
Operating lease rentals of premises and motor vehicles	1,540	1,577
Interest on bank loans and facilities wholly repayable within five years	12,492	5,983
Depreciation of property, plant and equipment	4,165	4,673
Amortisation of lease premium for land	165	87
Loss on disposal of property, plant and equipment	78	127
After crediting:–		
Bank and other interest income	<u>10,051</u>	<u>4,648</u>

4. **Taxation**

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 certain subsidiaries which were domestic enterprises of Mainland China engaging in the trading business, at rates ranging from 15% to 33%; and on productive foreign investment enterprises established in the special economic zones of Fujian, Mainland China, at preferential reduced tax rates ranging from 15% to 24%.

No provision for Mainland China enterprise income tax was made for other Mainland China subsidiaries as they were either in tax loss position or exempted from enterprise income tax during the six months ended 31st December, 2006.

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

5. **Earnings per share**

The calculations of basic earnings per share for the six months ended 31st December, 2006 is based on the unaudited consolidated profit attributable to the equity holders of the Company of approximately HK\$22,550,000 (2005: HK\$14,315,000) and the weighted average number of approximately 430,792,000 shares (2005: 421,565,000) in issue during the six months ended 31st December, 2006.

The calculation of diluted earnings per share for the six months ended 31st December, 2006 was based on the unaudited consolidated profit attributable to the equity holders of the Company of approximately HK\$22,550,000 and the weighted average number of ordinary shares of 442,602,000 as adjusted for the effect of all dilutive potential shares under the Company's share options scheme. The effect of dilutive potential shares on the average number of shares in issue during the period has approximately 11,810,000 shares, which were deemed to have been issued at no consideration as if all the outstanding options had been exercised on the date when the options were becoming exercisable.

No information on diluted earnings per share for the six months ended 31st December, 2005 is presented because there were no dilutive potential ordinary shares in existence during the period.

6. **Trade and bills receivables**

The Group generally requires its customers to pay a deposit shortly before delivery of merchandise, with the balance of the sales amount payable within credit periods ranging from 90 to 180 days. Aging analysis of trade receivables is as follows:

	At 31st December, 2006 HK\$'000	At 30th June, 2006 HK\$'000
0 to 30 days	71,889	104,501
31 to 60 days	31,229	53,276
61 to 90 days	26,010	20,911
91 to 180 days	26,941	20,973
Over 180 days	39,843	22,039
	<u>195,912</u>	<u>221,700</u>
Less: Provision for bad and doubtful debts	<u>(3,352)</u>	<u>(3,337)</u>
	<u>192,560</u>	<u>218,363</u>

7. Trade and bills payable

Aging analysis of trade and bills payable is as follows:

	At 31st December, 2006 HK\$'000	At 30th June, 2006 HK\$'000
0 to 30 days	188,010	126,160
31 to 60 days	98,335	169,672
61 to 90 days	57,301	94,067
91 to 180 days	259,475	266,231
Over 180 days	-	18,332
	603,121	674,462

8. Comparative figures

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

INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend for the six months ended 31st December, 2006 (2005: Nil).

BUSINESS REVIEW AND OUTLOOK

Overall Results

For the six months ended 31st December, 2006, the Group's consolidated turnover was approximately HK\$752,688,000 (2005: HK\$1,086,557,000) and net profit attributable to equity holders of the Company was approximately HK\$22,550,000 (2005: HK\$14,315,000), representing a decline of approximately 31% and a growth of approximately 58% respectively as compared to the last corresponding financial period.

The decrease in consolidated turnover was mainly due to the decline in turnover of agricultural resources trading and non-agricultural resources trading by approximately 32% and 40% respectively. The decrease in trading of agricultural resources was mainly due to the effect of significant decline in price of chemical fertilizers, especially nitrogenous fertilizers, during the period; while the decrease in trading of non-agricultural resources was mainly due to the inflation of Renminbi which resulted in foreign currency exchange risk against exports. Therefore, the Group actively adjusted its strategy by decreasing the trading of nitrogenous fertilizers which have relatively lower gross profit margin, as well as decreasing exports of the non-agricultural resources products; in order to minimize risks. In the meantime, the Group actively commenced its operation strategy of central purchase and distribution of agricultural resources products, strengthened its management of upstream suppliers, adjusted product mix, as well as increased single product purchase scale. In respect of non-agricultural resources trading business, the Group increased the proportion of importing business and focused on imports of products of resources nature which are related to its core business as well as domestic trading with staple amounts.

In the past few years, the Group established its business chain integrated with production, sales, technical services and resources trading, with its capabilities of risk-resistant and value enhancement being gradually realized. As the agricultural resources trading business only contributed a relatively lower gross profit margin of approximately 3% while the turnover decreased by approximately 32% and represented 58% of the consolidated turnover; and that the gross profit margins of other business segments, namely, manufacturing operation, consultancy operation and non agricultural resources trading operation are increased by 10%, 15% and 7% respectively, the overall gross profit margin of the Group was increased from 5% to 11% as compared with the last corresponding period, reflecting the success of the Group in its adjustment of operation strategy when faced with unfavourable market conditions, in order to increase the Group's gross profit margin.

A summary of the turnover, gross profit, gross profit margin and segment results by scope of business, say, trading operation, manufacturing operation, consultancy operation and non-agricultural resources trading operation is as follows:

	Trading operation		Manufacturing operation		Consultancy operation		Non-agricultural resources trading operation		Total	
	Six months ended 31st December, 2006		Six months ended 31st December, 2006		Six months ended 31st December, 2006		Six months ended 31st December, 2006		Six months ended 31st December, 2006	
	HK\$'000	2005 HK\$'000	HK\$'000	2005 HK\$'000	HK\$'000	2005 HK\$'000	HK\$'000	2005 HK\$'000	HK\$'000	2005 HK\$'000
Turnover	435,588	643,909	98,616	104,050	17,677	4,559	200,807	334,039	752,688	1,086,557
Gross profit	14,608	18,145	37,631	28,786	13,387	2,779	15,641	2,357	81,267	52,067
Gross profit margin	3%	3%	38%	28%	76%	61%	8%	1%	11%	5%
Segment results	(6,400)	(7,487)	20,209	22,182	9,440	1,028	3,646	880	26,895	16,603

AGRICULTURAL RESOURCES TRADING BUSINESS

For the six months ended 31st December, 2006, turnover from the trading business amounted to approximately HK\$435,588,000 (2005: HK\$643,909,000), representing a decrease of approximately 32% from the last financial period and contributed to 58% (2005: 59%) of the consolidated turnover of the Group.

The decrease in turnover of the trading business during the period was mainly due to the significant decline in international prices of chemical fertilizers, especially nitrogenous fertilizers (e.g. urea) during the period. Hence, the Group adjusted its sales strategy by decreasing the trading of nitrogenous fertilizers which have relatively low gross profit margin, so as to avoid loss from trading at unfavourable prices.

The trading business was quantity-driven with a relatively low gross profit margin of approximately 3% (2005: 3%), and therefore, requires a considerable high turnover level in order to generate adequate gross profit to cover various selling and distribution expenses and amortisation of computer system development cost. Due to the decrease in trading of agricultural resources as a result of change of operation strategy during the period, the trading business recorded an operating loss of approximately HK\$1,846,000 (excluding amortisation of computer system development costs) (2005: operating loss of approximately HK\$3,064,000, excluding amortisation of computer system development costs).

In the coming year, as the prices of nitrogenous fertilizers in the international market was obviously increased since early 2007, the Group believes the market conditions will be favourably resumed. The Group also commenced its strategy of central purchase and distribution, strengthened its management of upstream suppliers, and increased single product purchase scale. It is expected that the trading business in different provinces will be more strengthened, the customer networks will become more mature and enlarged and the synergetic effect will be more pronounced. As such, the trading business, taking a leading role for other business segments, will contribute a satisfactory result to the Group in the second half of the year and thereafter.

AGRICULTURAL RESOURCES PRODUCTION BUSINESS

In the fertilisers production front, the phosphorous fertiliser production plant in Hubei province contributed a turnover of approximately HK\$8 million (2005: HK\$7 million) during the period. The Group's compound fertiliser manufacturing base in Fujian contributed a turnover and operating profit of approximately HK\$38 million (2005: HK\$29 million) and HK\$9 million (2005: HK\$7 million) respectively to the Group during the period. The Group's another compound fertiliser manufacturing base in Jiangxi contributed a turnover of approximately HK\$22 million (2005: HK\$22 million) during the period, but yet to contribute an operating profit to the Group. The fertilisers manufacturing business is expected to further improve in the back of the Group's circulation platform.

In respect of pesticides production, PGR and BtA contributed a turnover of approximately HK\$32 million and HK\$11 million respectively for the period.

For PGR, the turnover and operating profit were approximately HK\$32 million (2005: HK\$32 million) and HK\$19 million (2005: HK\$19 million) respectively, which continue to provide a stable income to the Group. In respect of new types of PGRs specifically for three kinds of agricultural produces, they have been undergoing the last phase of testing on large farmlands and received satisfactory results. It is expected that they will be approved for marketing in the second half of 2007.

For the biological pesticide (BtA), it contributed to a turnover and operating profit (excluding amortisation of acquisition cost of the intellectual property) of approximately HK\$11 million (2005: HK\$10 million) and HK\$2.3 million (2005: HK\$2.2 million) respectively for the period.

The Group expected that the agricultural resources production business will contribute a stable-growing profit to the Group.

PLANT PROTECTION TECHNICAL SERVICES

The Group's plant protection technical services recorded a service income and operating profit of approximately HK\$17,677,000 (2005: HK\$4,559,000) and HK\$9,440,000 (2005: HK\$1,028,000) respectively during the period, representing an increasing of approximately 288% and 818% respectively as compared with the last financial period, demonstrating the rapid growth of the business, in the back of the commencement of wide application of the distant diagnose system for plant diseases and pests of agriculture produces since the last year. The Group expected that the income from plant protection technical services will have a continuous growth.

NON-AGRICULTURAL RESOURCES PRODUCTS TRADING BUSINESS

In respect of the non-agricultural resources trading business, due to the inflation of Renminbi during the period, the Group shrunk its exports trading in order to avoid the risk of loss from foreign currency exchange. As a result, the turnover decreased by 40% to HK\$201 million (2005: HK\$334 million) as compared to the last financial period. Nevertheless, as the Group adjusted its sales strategy by increasing the proportion of importing business and focused on the importing of products of resources nature which are related to its core business as well as domestic trading with staple amounts, the gross profit margin was successfully managed to increase to approximately 8% (2005: 1%).

It is expected that the Group's non-agricultural resources trading business will bring about a satisfactory contribution to the Group in the coming year.

LIQUIDITY AND FINANCIAL RESOURCES

Financial resources

The Group generally finances its operations with internally generated cashflow and bank facilities for its capital expenditures and other capital requirements.

As at 31st December, 2006, the aggregated cash and bank balances and restricted bank deposits of HK\$286,464,000 included HK\$11,077,000, which was denominated in Hong Kong dollars; HK\$7,618,000 which was denominated in US dollars and HK\$267,769,000 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 rate between Renminbi and Hong Kong dollar/US dollar was 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, 2006, the Group had bank borrowings of HK\$239,957,000 which was denominated in Renminbi. As at 31st December, 2006, the Group had bills payable of HK\$481,501,000 which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of the Group of HK\$150,311,000 which was also denominated in Renminbi.

As at 31st December, 2006, the Group maintained a gearing ratio of approximately 51%. 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, 2006. The Directors considered that the gearing ratio as at 31st December, 2006 was healthy, taking into account of the scale of operations of the Group.

Commitments

As at 31st December, 2006, the Group had no significant outstanding contracted capital commitments as well as operating lease commitments of approximately HK\$5,275,000.

Contingent liabilities

As at 31st December, 2006, the Group had no material contingent liabilities.

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, 2006. 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, 2006.

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, 2006, 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 management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including review of the unaudited interim accounts of the Group for the six months ended 31st December, 2006.

REMUNERATION COMMITTEE

The Board of the Company has established a 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.

GENERAL

The Board as at 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, 2007