

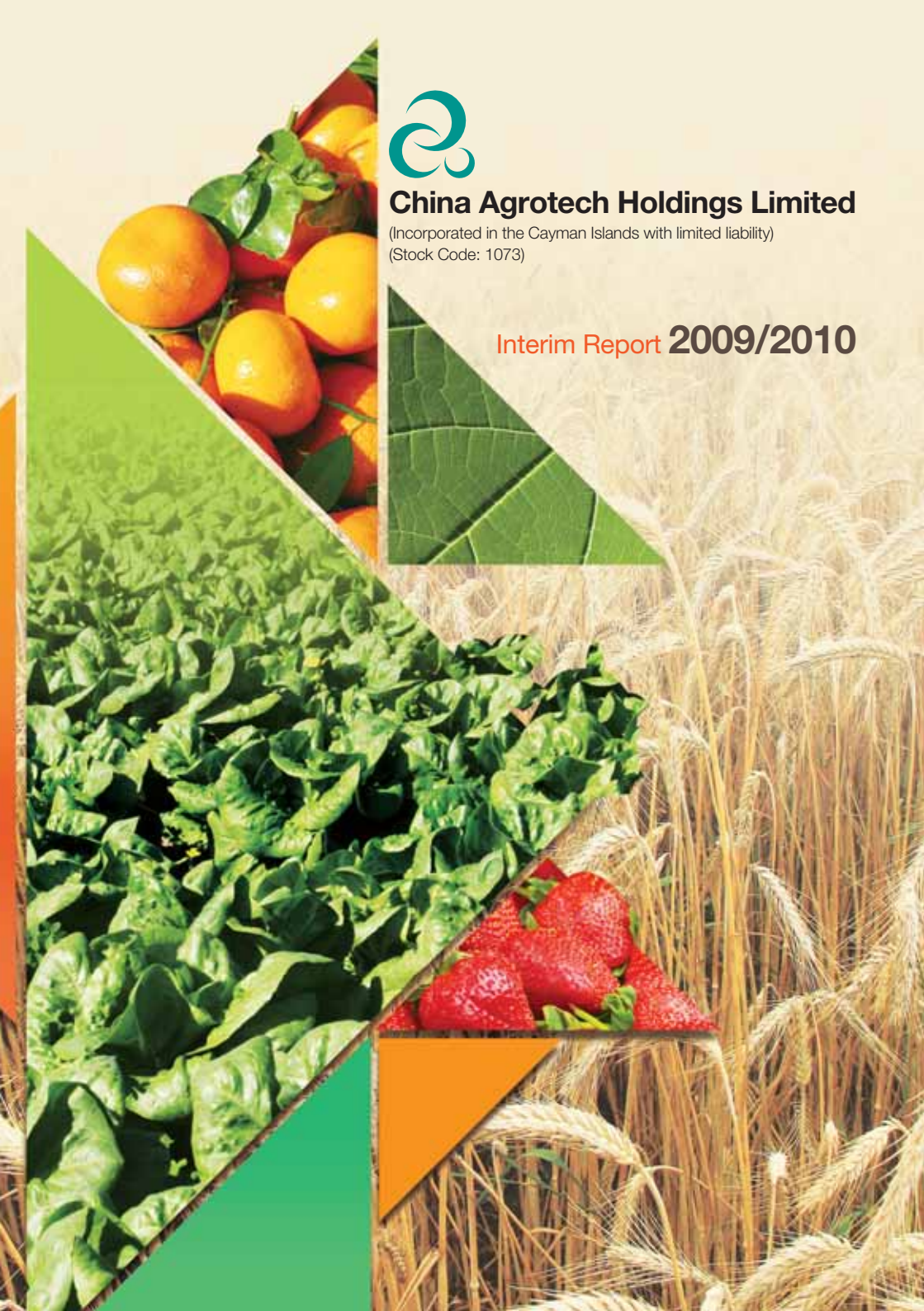


China Agrotech Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1073)

Interim Report **2009/2010**



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, 2009 together with the comparative figures for the corresponding period in 2008 as set out below. This interim report has been reviewed by the Company’s audit committee.

Consolidated Income Statement (unaudited)

		Six months ended 31st December,	
	<i>Note</i>	2009 HK\$'000	2008 HK\$'000
Turnover	2	1,563,790	1,488,500
Cost of sales		(1,493,279)	(1,356,409)
Gross profit		70,511	132,091
Other income		10,635	8,779
Distribution costs		(30,215)	(49,006)
Administrative expenses		(29,806)	(30,827)
Valuation losses on investment properties		–	(2,956)
Profit/(loss) on disposal of subsidiaries		(3,407)	1,681
Profit from operations		17,718	59,762
Finance costs		(13,081)	(34,236)
Profit before taxation	3	4,637	25,526
Income tax	4	(4,112)	(4,676)
Profit for the period		525	20,850
Attributable to:			
– Equity holders of the Company		1,226	20,346
– Minority interests		(701)	504
Profit for the period		525	20,850
Earnings per share	5		
– Basic		HK0.22 cents	HK4.15 cents
– Diluted		HK0.22 cents	HK4.15 cents



Consolidated Balance Sheet (unaudited)

	Note	At 31st December, 2009 HK\$'000	At 30th June, 2009 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		108,637	82,676
Investment properties		20,557	20,557
Lease premiums for land	6	3,358	8,538
Intangible assets	7	110,598	118,798
Long-term investments		26,713	–
		269,863	230,569
CURRENT ASSETS			
Trading securities		3,556	2,989
Inventories		164,224	147,882
Lease premiums for land	6	96	240
Trade and other receivables	8	1,748,370	1,732,201
Restricted bank deposits		366,270	305,706
Cash and bank balances		176,369	112,621
		2,458,885	2,301,639
CURRENT LIABILITIES			
Trade and other payables	9	(1,385,457)	(1,482,729)
Bank loans	10	(474,050)	(304,433)
Provision for taxation		(34,656)	(37,603)
Convertible bonds		(899)	–
		(1,895,062)	(1,824,765)
Net current assets		563,823	476,874
NON-CURRENT LIABILITIES			
Convertible bonds		(28,223)	–
NET ASSETS		805,463	707,443
CAPITAL AND RESERVES			
Share capital	11	59,157	48,977
Reserves		726,778	638,207
Total equity attributable to equity holders of the company		785,935	687,184
Minority interests		19,528	20,259
TOTAL EQUITY		805,463	707,443



Condensed Consolidated Cash Flow Statement (unaudited)

	Six months ended 31st December,	
	2009	2008
	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities	(124,514)	113,642
Net cash used in investing activities	(87,306)	(107,194)
Net cash generated from/(used in) financing activities	275,568	(36,835)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	63,748	(30,387)
Cash and cash equivalents at beginning of period	112,621	192,433
	<hr/>	<hr/>
Cash and cash equivalents at end of period	176,369	162,046
	<hr/> <hr/>	<hr/> <hr/>



Consolidated Statement of Changes in Equity (unaudited)

Six months ended 31st December, 2009

Attributable to equity holders of the Company

	Share capital	Share premium	Statutory reserve	Capital reserve	Exchange reserve	Employee share-based compensation reserve	Convertible bond equity component reserve	Warrants reserve	Retained earnings	Total	Minority interests	Six months ended 31st December, 2008	
												Total equity	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of period	48,977	114,391	53,804	1,188	82,308	-	-	2,446	384,070	687,184	20,259	707,443	686,597
Exercise of unlisted warrants	5,890	54,725	-	-	-	-	-	(1,715)	-	58,900	-	58,900	-
Issue of new shares	4,290	25,205	-	-	-	-	-	-	-	29,495	-	29,495	-
Issue of convertible bonds	-	-	-	-	-	-	1,378	-	-	1,378	-	1,378	-
Issue of share options	-	-	-	-	-	8,040	-	-	-	8,040	-	8,040	-
Minority interest of new subsidiaries	-	-	-	-	-	-	-	-	-	-	136	136	-
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	(166)	(166)	(343)
Translation adjustments	-	-	-	-	(288)	-	-	-	-	(288)	-	(288)	-
Transfer of reserves	-	-	39	-	-	-	-	(731)	692	-	-	-	-
Profit for the period	-	-	-	-	-	-	-	-	1,226	1,226	(701)	525	20,850
	<u>59,157</u>	<u>194,321</u>	<u>53,843</u>	<u>1,188</u>	<u>82,020</u>	<u>8,040</u>	<u>1,378</u>	<u>-</u>	<u>385,988</u>	<u>785,935</u>	<u>19,528</u>	<u>805,463</u>	<u>717,104</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, 2009.



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, 2009

	Trading operation	Manufacturing operation	Consultancy operation	Non-agricultural resources trading operations	Elimination	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover						
External sales	1,125,897	30,251	8,061	399,581		1,563,790
Inter-segment sales	7,145	7,445	-	39,107	(53,697)	-
	<u>1,133,042</u>	<u>37,696</u>	<u>8,061</u>	<u>438,688</u>		<u>1,563,790</u>
Segment results	<u>(4,319)</u>	<u>4,839</u>	<u>5,401</u>	<u>15,251</u>		21,172
Interest income						8,246
Unallocated corporate operating expenses						<u>(11,700)</u>
Profit from operations						17,718
Finance costs						<u>(13,081)</u>
Profit before taxation						4,637
Income tax						<u>(4,112)</u>
Profit for the period						<u><u>525</u></u>



(ii) 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
Valuation losses on investment properties						(2,956)
Interest income						5,189
Unallocated corporate operating expenses						<u>(3,534)</u>
Profit from operations						59,762
Finance costs						<u>(34,236)</u>
Profit before taxation						25,526
Income tax						<u>(4,676)</u>
Profit for the period						<u>20,850</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,	
	2009	2008
	HK\$'000	HK\$'000
After charging:–		
Staff costs (including directors' emoluments)	9,722	14,589
Amortisation of intangible assets		
– Product development costs	2,010	2,278
– Technical know-how	2,713	4,013
Operating lease rentals of premises	1,807	2,231
Interest on		
– bank and other borrowings wholly repayable within five years	12,351	34,236
– convertible bonds	730	–
Depreciation of property, plant and equipment	3,285	2,903
Amortisation of lease premiums for land	139	160
Employee share-based compensation expense	8,040	–
After crediting:–		
Bank and other interest income	8,246	5,189

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.

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, 2009 is based on the unaudited consolidated profit attributable to the equity holders of the Company of approximately HK\$1,226,000 (2008: HK\$20,346,000) and the weighted average number of approximately 560,859,000 shares (2008: 489,765,000 shares) in issue during the six months ended 31st December, 2009.

The calculation of diluted earnings per share for the six months ended 31st December, 2009 was based on the unaudited consolidated profit attributable to the equity holders of the Company of approximately HK\$1,226,000 (2008: HK\$20,346,000) and the weighted average number of ordinary shares of 560,859,000 (2008: 489,765,000 shares) as adjusted for the effect of all dilutive potential shares under the Company's share options scheme, unlisted warrants and convertible bonds. The effect of dilutive potential shares on the average number of shares in issue during the period has approximately nil shares (2008: nil shares), which were deemed to have been issued at no consideration as if all the outstanding share options, unlisted warrants and subscription rights attaching to the convertible bonds had been exercised on the date when they were becoming exercisable.

6. Lease premium for land

	At 31st December, 2009 HK\$'000	At 30th June, 2009 HK\$'000
Leasehold land under medium-term leases in the PRC		
Net carrying amount at beginning of period/year	8,778	10,580
Additions	-	4,810
Disposal of a subsidiary	(5,185)	-
Exchange alignment	-	(25)
Transfer to investment properties	-	(6,281)
Amortisation	(139)	(306)
	<hr/>	<hr/>
Net carrying amount at end of period/year	3,454	8,778
Current portion of lease premium for land	(96)	(240)
	<hr/>	<hr/>
Non-current portion	3,358	8,538
	<hr/> <hr/>	<hr/> <hr/>

7. Intangible assets

	Goodwill <i>(Note)</i> <i>HK\$'000</i>	System developments costs <i>HK\$'000</i>	Product development costs <i>HK\$'000</i>	Technical know-how <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At 1st July, 2009 and 31st December, 2009	109,697	52,292	51,210	105,490	318,689
Disposal of a subsidiary	-	-	-	(13,385)	(13,385)
	<u>109,697</u>	<u>52,292</u>	<u>51,210</u>	<u>92,105</u>	<u>305,304</u>
Accumulated amortisation and impairment losses:					
At 1st July, 2009	23,816	52,292	26,810	96,973	199,891
Charge for the period	-	-	2,010	2,713	4,723
Disposal of a subsidiary	-	-	-	(9,908)	(9,908)
At 31st December, 2009	<u>23,816</u>	<u>52,292</u>	<u>28,820</u>	<u>89,778</u>	<u>194,706</u>
Net book value:					
At 31st December, 2009	<u>85,881</u>	<u>-</u>	<u>22,390</u>	<u>2,327</u>	<u>110,598</u>
At 30th June, 2009	<u>85,881</u>	<u>-</u>	<u>24,400</u>	<u>8,517</u>	<u>118,798</u>

Note: The Group entered into arrangements with separate agricultural resources trading/manufacturing companies whereby the agricultural resources trading/manufacturing companies agreed to form joint ventures with the Group in carrying out trading/manufacturing operation of pesticides, fertilisers and other agricultural products, and provision of plant protection technical services. In connection with these arrangements, the agricultural resources trading/manufacturing companies transferred their businesses, which primarily consisted of customer base, management expertise and technical know-how in respect of production of certain agricultural resources products, into the joint ventures for an agreed consideration payable by the Group. The aggregate consideration was recorded as goodwill.



8. 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:

	At 31st December, 2009 HK\$'000	At 30th June, 2009 HK\$'000
Within credit period	488,556	613,963
Past due within 3 months	59,879	34,048
Past due more than 3 months	54,959	34,584
	603,394	682,595
Less: allowance for doubtful debts	(2,475)	(8,855)
	600,919	673,740

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.

9. 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:

	At 31st December, 2009 HK\$'000	At 30th June, 2009 HK\$'000
Within 1 month	336,095	550,445
Over 1 month but within 2 months	175,524	482,832
Over 2 months but within 3 months	223,198	37,134
Over 3 months but within 6 months	382,800	218,374
Over 6 months	19,273	23,576
	1,136,890	1,312,361

10. Bank loans

	At 31st December, 2009 HK\$'000	At 30th June, 2009 HK\$'000
Bank loans, repayable within 1 year		
– secured	45,372	53,880
– unsecured	428,678	250,553
	474,050	304,433

The bank loans bear interest at rates ranging from approximately 1.8% to 6.9% per annum.

As at 31st December, 2009, bank loans of approximately HK\$45,372,000 (all denominated in Renminbi) were secured by certain investment properties and trade receivables of the Group. The unsecured bank loans were guaranteed by a director of the Company and third parties and were secured by properties put up by certain minority shareholders.

11. Share capital

	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 30th June, and 31st December, 2009	<u>3,000,000</u>	<u>300,000</u>
Issued and fully paid:		
At 30th June, 2009	489,767	48,977
Issue of new shares upon:		
– placing	42,900	4,290
– exercise of unlisted warrants	58,900	5,890
At 31st December, 2009	<u>591,567</u>	<u>59,157</u>



12. Commitments

a. Capital and other commitments:

As at 31st December, 2009, the Group had no significant outstanding contracted capital and other commitments.

b. Operating lease commitments:

At 31st December, 2009, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31st December, 2009 HK\$'000	At 30th June, 2009 HK\$'000
Within 1 year	2,675	4,154
After 1 year but within 5 years	5,909	5,978
After 5 years	4,763	5,292
	<hr/> 13,347 <hr/>	<hr/> 15,424 <hr/>

13. 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, 2009 (2008: nil).



Business Review and Outlook

Overall Results

For the six months ended 31st December, 2009, the Group's consolidated turnover was approximately HK\$1,563,790,000 (2008: HK\$1,488,500,000) and net profit attributable to equity holders of the Company was approximately HK\$1,226,000 (2008: HK\$20,346,000), representing a growth of about 5% and a decline of about 94% 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.

Excluding the impact of certain one-off non-cashflow items (i.e. valuation losses on investment properties, profit/(loss) on disposal of subsidiaries and employee share-based compensation expense), the net profit was approximately HK\$12,673,000 (2008: HK\$21,621,000), representing a decrease of approximately 41%. The major factor causing the decrease in net profit was the decrease in overall gross profit during the period under review as a result of the economic downturn arising from the worldwide financial crises occurred in the last quarter of 2008. As such, the extent of drop in selling prices of the Group's products was greater than the decrease in cost of purchase, and hence, the overall gross profit margin was shrunk.


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,			
	2009		2008	
	Turnover	Percentage	Turnover	Percentage
	HK\$'000	of the total	HK\$'000	of the total
		turnover		turnover
Agricultural resources operation				
nitrogenous fertiliser	153,952	10%	191,641	13%
phosphorous fertiliser	189,771	12%	188,544	13%
potash fertiliser	324,650	21%	355,910	24%
compound fertiliser	412,197	26%	333,913	22%
pesticides	83,639	5%	127,157	8%
Agricultural resources products (subtotal)	1,164,209	74%	1,197,165	80%
Trading of non-agricultural resources products	399,581	26%	291,335	20%
Total	1,563,790	100%	1,488,500	100%

Aggregate sales volume of fertilisers, including nitrogenous fertiliser, phosphorous fertiliser, potash fertiliser and compound fertiliser, increased by about 18% from approximately 448,000 tonnes last period to approximately 528,000 tonnes this period. The aggregate turnover of fertilizers for this period was approximately HK\$1,081 million, representing a slight growth of about 1% compared to approximately HK\$1,070 million last period.

For pesticides, turnover decreased by 34% from approximately HK\$127 million last period to approximately HK\$84 million this period.

Turnover for trading of non-agricultural resources product increased by 37% from approximately HK\$291 million last period to approximately HK\$400 million this period.



Gross profit for the period amounted to approximately HK\$70.5 million and net profit attributable to shareholders of the Company was approximately HK\$1.2 million, representing a decline of approximately 47% and 94% respectively as compared to the previous period. Overall gross profit margin decreased from approximately 8.9% last period to approximately 4.5% this period, which was mainly attributable to the rapid drop in selling prices of agricultural resources products in 2009 as a result of drastic economic downturn, which was yet to resume during the period under review. As a result, the gross profit of agricultural resources operation decreased from approximately HK\$115.9 million last period to approximately HK\$51.0 million this period, causing a substantial drop in net profit for the 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 1.8% (2008: 3.3%). 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 91,000 tonnes (2008: 101,000 tonnes) while turnover decreased by 20% to HK\$154 million (2008: HK\$192 million).

(2) Phosphorous fertiliser

During the period under review, there was an increase in market demand for phosphorous fertilisers. Hence, the Group leveraged on its experience in the phosphorous fertiliser market and increased such trading while shortened the stock turnover days so as to minimize operational risk. As a result, sales volume of phosphorous fertiliser increased by 11% to approximately 151,000 tonnes (2008: 136,000 tonnes), turnover slightly increased by 1% to HK\$190 million (2008: HK\$189 million) while gross profit margin decreased from 12.0% last period to 3.8% this period.

(3) Potash fertiliser

Being a scarce resource, over 70% of potash fertiliser in the PRC is imported. However, there was a sharp fall in domestic demand for potash fertiliser in 2009, causing an obvious drop in market price. Nevertheless, 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, and successfully sourced a stable supply for potash fertiliser for the tobacco market. Therefore, sales volume of potash fertiliser for the period increased by 20% to 96,000 tonnes (2008: 80,000 tonnes). However, due to the drop in selling prices, the overall turnover of potash fertilisers decreased by 9% to HK\$325 million (2008: HK\$356 million). Gross profit margin was also shrunk to approximately 3.9% (2008: 7.9%).



(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 131,000 tonnes last period to approximately 190,000 tonnes this period. Turnover increased by 23% to approximately HK\$412 million (2008: HK\$334 million). However, gross profit margin decreased from approximately 11.5% last period to approximately 4.5% this period due to low market prices of compound fertilisers during the period after the rapid drop in early 2009, and the Group adopted its policy of reducing the stock turnover days so as to minimise operational risk and increasing cash flow.

(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 34% to approximately HK\$84 million (2008: HK\$127 million) due to the scale-down of production in view of the market downturn. Consequently, the average gross profit margin of pesticides decreased from approximately 16.0% last period to approximately 11.8% this period.

As a part of the Group's business restructuring plan, the Group disposed of two subsidiaries engaged in the production of phosphorous fertilisers and compound fertilisers respectively, and recorded a loss of approximately HK\$3,407,000 during the period. The Group also acquired 10% of the issued share capital of a PRC pesticides manufacturer at a consideration of RMB22.3 million, as the Group's strategic long-term investment.

Trading of non-Agricultural Resources Products

For non-agricultural resources products, the Group increased domestic and import trading during the period, hence, turnover and gross profit increased by 37% and 21% to approximately HK\$400 million (2008: HK\$291 million) and HK\$19.5 million (2008: HK\$16.2 million) respectively this period.

However, gross profit margin decreased from approximately 5.6% last period to approximately 4.9% this period due to the relatively lower market prices and thinner profit margin of commodities and resources products during the period under review.

Corporate Strategies and Prospects

Despite prices of various fertilizers are currently at a relatively low level, price trend for 2010 depends on a number of factors which include the speed of the global economic recovery and the demand for foodstuff. However, the PRC government has been working on deepening the agricultural reform, increasing farmers' income and stepping up its efforts to address the "three rural (rural areas, farmers and agriculture) issues". In particular, the 2010 No. 1 Document issued by the Central Government emphasized a continuous increase in the input in the agricultural sector in terms of total volume, as well as a steady growth in proportion. The Central Government also takes every measure to increase the grain production, which will speed up the resumption pace of the fertilizer market in the coming years and provides a great room for the development of the industry.

In the coming year, the Group will continue to strengthen its risk management and will take a prudent approach in the hope of steering clear of adversities. Besides, overcapacity has prompted a gradual consolidation in the domestic fertilizer industries. The Group also takes this opportunity to effect a restructuring to reinforce its core competitiveness by consolidating existing businesses while setting new development direction.

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

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

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, 2009, the aggregated cash and bank balances and restricted bank deposits of HK\$542,639,000 included HK\$450,000 which was denominated in Hong Kong dollars, HK\$287,000 which was denominated in US dollars and HK\$541,902,000 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.

During the period, the Company successfully raised funds from placing of new shares and convertible bonds, which amounted to a net proceeds of approximately HK\$59.4 million. The Company also raised additional funds of HK\$58.9 million from the exercise of subscription rights attaching to unlisted warrants by certain warrant-holders.

Borrowings and banking facilities

As at 31st December, 2009, the Group had bank borrowings of HK\$474,050,000 which were denominated in Renminbi and bore interest at rates ranging from approximately 1.8% to 6.9% per annum. As at 31st December, 2009, the Group had bills payable of approximately HK\$905,069,000 which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of the Group of approximately HK\$366,270,000 which were also denominated in Renminbi.

As at 31st December, 2009, the Group had convertible bonds of HK\$29,122,000 (due in July 2011) which was denominated in Hong Kong dollars and bore interest at 3% per annum.

As at 31st December, 2009, the Group maintained a gearing ratio of approximately 64%. This is based on the division of the total amount of bank loans and convertible bonds by equity attributable to equity holders of the Company as at 31st December, 2009. The Directors considered that the gearing ratio as at 31st December, 2009 was healthy, taking into account of the nature and scale of operations of the Group.

Commitments

As at 31st December, 2009, the Group had no significant outstanding contracted capital commitments, and the operating lease commitments was approximately HK\$13,347,000.

Contingent liabilities

As at 31st December, 2009, the Group had no material contingent liabilities.

Remuneration policies and share option scheme

The Group incurred total salaries and other remunerations (excluding employee share-based compensation expense) of approximately HK\$9.7 million with an average number of about 900 staff during the six months ended 31st December, 2009.

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 11th February, 2009. During the six months period ended 31st December, 2009, 48,970,000 share options to subscribe for ordinary shares of HK\$0.10 each were granted to the relevant participants under the Share Option Scheme (2008: nil).

Directors' and Chief Executives' Interests in Securities

As at 31st December, 2009, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Listing Rules were as follows:

Long positions in shares of the Company

Name of Director	Nature of interests	Number of ordinary shares			Total	Approximate percentage of issued share capital
		Personal interests	Family interests	Corporate interests		
Wu Shaoning	Interests in issued shares	203,200,000	-	-	203,200,000	34.35%

Save as disclosed above, none of the directors, chief executives or their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are recorded in the register required to be kept by the Company under Section 352 of the SFO or which are notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests in Securities

As at 31st December, 2009, so far as is known to the Directors, no party (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Directors' Rights to Acquire Shares or Debt Securities

Other than as disclosed under the headings "Directors' and Chief Executives' Interests in Securities" above and "Share Option Scheme" below, at no time during the six months ended 31st December, 2009 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or Chief Executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Share Option Scheme

On 31st December, 2001, the Company adopted the Share Option Scheme, the principal terms of which are set out in the Company's Annual Report 2009.

Details of the movements of the outstanding share options granted under the Share Option Scheme of the Company during the period under review are as follows:

Name or category of participant	Number of Shares in respect of Options				Outstanding as at 31st December, 2009	Date of grant	Exercisable period	Exercise price per share HK\$
	Balance as at 1st July, 2009	Granted during the period	Exercised during the period	Lapsed/Cancelled during the period (Note 1)				
Employees								
In aggregate	800,000	-	-	-	800,000	01/12/2003	01/01/2004 - 30/12/2011	0.55
	-	48,970,000	-	-	48,970,000	27/07/2009	27/07/2009 - 30/12/2011	0.72
Total	<u>800,000</u>	<u>48,970,000</u>	<u>-</u>	<u>-</u>	<u>49,770,000</u>			

Notes:

1. No option has been lapsed or cancelled during the six months ended 31st December, 2009.
2. Since no option was exercised during the six months ended 31st December, 2009, the weighted average closing price immediately before the exercise date (if exercised) is not applicable.

Unlisted Warrants

On 7th September, 2007, the Company issued 84,000,000 warrants at the issue price of HK\$0.03 per warrant pursuant to a subscription agreement dated 19th August, 2007.

The warrant holders had the right to exercise the subscription rights attaching to the warrants, in whole or in part, at the subscription price of HK\$1.00 per subscription share at any time within 2 years commencing from the date of issue of the warrants. The warrants were not listed on the Stock Exchange or any other stock exchanges. The net proceeds of approximately HK\$2.4 million from the issue of the warrants was used as general working capital.

In August and September 2009, a total of 58,900,000 warrants were exercised upon exercise of the subscription rights attached and an aggregate of 58,900,000 new shares of the Company at the subscription price of HK\$1.00 per share were issued to the warrant holders. The remaining 25,100,000 unexercised warrants were expired and cancelled on 7th September, 2009. The net proceeds from the issue of the new shares of approximately HK\$58.9 million was used as general working capital of the Group.

Placing of Shares and Convertible Bonds

On 4th June, 2009, the Company entered into a share placing agreement with Excalibur Securities Limited ("ESL"), the placing agent, whereby the Company would place, through ESL, a maximum of 42,900,000 new shares of the Company to independent placees at a price of HK\$0.70 per placing share of the Company. The placing of new shares in an aggregate amount of HK\$30,030,000 was completed on 10th August, 2009. The net proceeds from the placing of approximately HK\$29.6 million was used as general working capital of the Group.

On 4th June, 2009, the Company also entered into a convertible bonds placing agreement with ESL whereby the Company would place and ESL would procure independent subscribers for subscription of the 3% coupon convertible bonds of the Company ("Convertible Bonds") in an aggregate maximum principal amount of HK\$29,970,000.

The holders of the Convertible Bonds are entitled to exercise the conversion rights attaching to the Convertible Bonds, in whole or in part, at the conversion price of HK\$0.90 per share at any time within 2 years commencing from the date of issue of the Convertible Bonds, to convert the Convertible Bonds into ordinary shares of the Company. The placing of Convertible Bonds in an aggregate principal amount of HK\$29,970,000 was completed on 24th July, 2009. The net proceeds from the placing of approximately HK\$29.8 million was used as general working capital of the Group.



The Convertible Bonds are not listed on the Stock Exchange or any other stock exchanges. During the six months ended 31st December, 2009, no Convertible Bonds were exercised and converted into ordinary shares of the Company.

Details of the placing of new shares and Convertible Bonds are set out in the Company's announcement dated 5th June, 2009.

Post Balance Sheet Events

- (i) On 19th January, 2010, the Company entered into a conditional placing agreement with Kingston Securities Limited ("KSL"), the placing agent, whereby the Company would place, through KSL, a maximum of 50,000,000 new shares of the Company to independent placees at a price of HK\$0.95 per placing share of the Company.

The placing of 50,000,000 new shares of HK\$0.10 each in an aggregate amount of HK\$47,500,000 was completed on 28th January, 2010 and was issued under the general mandate approved at the Company's annual general meeting held on 4th December, 2009. The net proceeds from the placing of approximately HK\$46,500,000 will be used as general working capital of the Group.

Details of the placing of new shares are sets out in the Company's announcement dated 19th January, 2010.

- (ii) On 12th March, 2010, Top Invest Limited, a wholly-owned subsidiary of the Company, entered into a letter of intent with Mr. Wu Shaoning, an executive director and controlling shareholder of the Company, in relation to the negotiation on a possible acquisition from Mr. Wu Shaoning of a target group engaged in the research and development, nursing, planting and sales of landscaping seedlings in the PRC.

As at the date of this report, no binding agreement in relation to the possible acquisition has been entered into.

Details of the letter of intent in respect of the possible acquisition are sets out in the Company's announcement dated 12th March, 2010.

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, 2009. 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, 2009.

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, 2009, 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 Kin Tak, 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, 2009.



Remuneration Committee

The Remuneration Committee, currently comprising executive director, Mr. Wu Shaoning (redesignated as chairman of the Remuneration Committee on 1st February, 2010) and independent non-executive directors, Mr. Wong Kin Tak 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, 2009.

On behalf of the Board
Wu Shaoning
Chairman

Hong Kong, 25th March, 2010