



# China Agrotech Holdings Limited

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 1073)

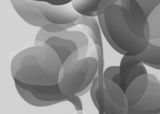
## INTERIM REPORT 2011/2012



The board of directors (the "Board") of China Agrotech Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 31 December, 2011 together with the comparative figures for the corresponding period in 2010 as set out below. This interim report has been reviewed by the Company's audit committee.

### Consolidated Income Statement (unaudited)

	Note	Six months ended 31 December,	
		2011 HK\$'000	2010 HK\$'000
<b>Turnover</b>	2	<b>2,220,242</b>	1,850,621
Cost of sales		<b>(2,082,593)</b>	(1,734,621)
<b>Gross profit</b>		<b>137,649</b>	116,000
Other revenue and other net income		<b>39,258</b>	19,775
Gain from compensation of shortfall of guaranteed profit arising from an acquisition		<b>120,000</b>	—
Gain from bargain purchases on acquisition of subsidiaries		—	216,511
Gain from change in fair value of derivative financial liabilities		<b>21,567</b>	—
Loss arising from change in fair value less costs to sell of biological assets		<b>(10,277)</b>	—
Distribution costs		<b>(34,468)</b>	(28,265)
Administrative expenses		<b>(54,993)</b>	(49,236)
<b>Profit from operations</b>		<b>218,736</b>	274,785
Finance costs		<b>(79,244)</b>	(28,754)
<b>Profit before taxation</b>	3	<b>139,492</b>	246,031
Income tax	4	<b>(5,222)</b>	(4,758)
<b>Profit for the period</b>		<b>134,270</b>	241,273
<b>Attributable to:</b>			
— Owners of the Company		<b>133,850</b>	239,316
— Non-controlling interests		<b>420</b>	1,957
<b>Profit for the period</b>		<b>134,270</b>	241,273
<b>Earnings per share</b>	5		
— Basic		<b>HK16.88 cents</b>	HK36.77 cents
— Diluted		<b>HK16.88 cents</b>	HK36.51 cents

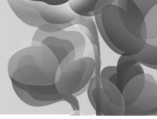


## Consolidated Statement of Comprehensive Income (unaudited)

	Six months ended 31 December,	
	2011 HK\$'000	2010 HK\$'000
<b>Profit for the period</b>	<b>134,270</b>	241,273
<b>Other comprehensive income for the period</b>		
Exchange differences on translation of financial statements of subsidiaries in the PRC	<b>50,570</b>	54,134
Reclassification adjustment for exchange difference relating to disposal of subsidiaries in the PRC	<b>187</b>	—
	<b>50,757</b>	54,134
Income tax relating to components of other comprehensive income	—	—
<b>Other comprehensive income for the period, net of tax</b>	<b>50,757</b>	54,134
<b>Total comprehensive income for the period</b>	<b>185,027</b>	295,407
<b>Attributable to:</b>		
Owners of the Company	<b>184,603</b>	293,450
Non-controlling interests	<b>424</b>	1,957
	<b>185,027</b>	295,407

## Consolidated Statement of Financial Position

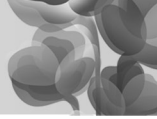
	Note	At 31 December, 2011 (Unaudited) HK\$'000	At 30 June, 2011 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		139,865	135,662
Lease premiums for land	6	11,609	11,476
Biological assets	7	921,989	883,536
Intangible assets	8	65,298	68,481
Goodwill	9	100,781	98,330
Available-for-sale financial assets		38,304	27,348
Other deposit		14,808	14,447
		<u>1,292,654</u>	<u>1,239,280</u>
<b>Current assets</b>			
Lease premiums for land	6	279	272
Inventories		152,304	100,520
Trade and other receivables	10	2,799,164	2,855,266
Trading securities		2,399	4,147
Restricted bank deposits		593,114	609,787
Cash and cash equivalents		118,834	178,514
		<u>3,666,094</u>	<u>3,748,506</u>
<b>Current liabilities</b>			
Trade and other payables	11	(1,609,064)	(2,004,660)
Bank loans	12	(891,389)	(674,977)
Tax payable		(52,920)	(51,379)
Derivative financial liabilities		(23,015)	(50,462)
Convertible bonds	13	—	(30,623)
Promissory notes	14	(187,721)	—
		<u>(2,764,109)</u>	<u>(2,812,101)</u>
<b>Net current assets</b>		<u>901,985</u>	<u>936,405</u>
<b>Total assets less current liabilities</b>		<u>2,194,639</u>	<u>2,175,685</u>



	Note	At 31 December, 2011 (Unaudited) HK\$'000	At 30 June, 2011 (Audited) HK\$'000
<b>Non-current liabilities</b>			
Bank loans	12	(14,807)	(14,447)
Convertible bonds	13	(533,228)	(544,244)
Deferred tax liabilities		(13,333)	(13,702)
Promissory notes	14	—	(182,016)
		<u>(561,368)</u>	<u>(754,409)</u>
<b>NET ASSETS</b>		<u><b>1,633,271</b></u>	<u>1,421,276</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	15	84,777	77,977
Share premium and reserves		<u>1,536,056</u>	<u>1,320,078</u>
<b>Total equity attributable to owners of the Company</b>		<b>1,620,833</b>	1,398,055
<b>Non-controlling interests</b>		<u>12,438</u>	<u>23,221</u>
<b>TOTAL EQUITY</b>		<u><b>1,633,271</b></u>	<u>1,421,276</u>

## Condensed Consolidated Cash Flow Statement (unaudited)

	Six months ended 31 December,	
	2011	2010
	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities	<b>(220,570)</b>	387,519
Net cash generated from/(used in) investing activities	<b>14,350</b>	(94,457)
Net cash generated from/(used in) financing activities	<b>142,125</b>	(140,914)
Net (decrease)/increase in cash and cash equivalents	<b>(64,095)</b>	152,148
Cash and cash equivalents at beginning of period	<b>178,514</b>	95,234
Effect of foreign exchange rate changes	<b>4,415</b>	3,749
Cash and cash equivalents at end of period	<b>118,834</b>	251,131



## Consolidated Statement of Changes in Equity (unaudited)

	Six months ended 31 December 2011											Six months ended 31 December 2010	
	Attributable to owners of the Company											Total equity	Total equity
	Share capital	Share premium	Capital reserve	Exchange reserve	Convertible bond equity reserve	Employee share-based compensation reserve	Warrant reserve	Other reserves	Retained profits	Total	Non-controlling interests	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	77,977	362,235	1,188	171,888	180,100	7,925	1,800	61,937	533,005	1,398,055	23,221	1,421,276	865,448
Profit for the period	—	—	—	—	—	—	—	—	133,850	133,850	420	134,270	241,273
Other comprehensive income:													
Exchange differences on translation of financial statements of overseas subsidiaries	—	—	—	50,566	—	—	—	—	—	50,566	4	50,570	54,134
Disposal of subsidiaries	—	—	—	187	—	—	—	—	—	187	—	187	—
Total comprehensive income for the period	—	—	—	50,753	—	—	—	—	133,850	184,603	424	185,027	295,407
Transactions with owners:													
Issue of consideration shares	2,800	3,080	—	—	—	—	—	—	—	5,880	—	5,880	—
Issue of unlisted warrants	—	—	—	—	—	—	893	—	—	893	—	893	—
Issue of convertible bonds	—	—	—	—	—	—	—	—	—	—	—	—	215,657
Issue of shares upon conversion of convertible bonds	4,000	38,185	—	—	(10,783)	—	—	—	—	31,402	—	31,402	21,952
Redemption of convertible bonds	—	—	—	44	(1,374)	—	—	—	1,330	—	—	—	—
Lapse of share options	—	—	—	—	—	(7,925)	—	—	7,925	—	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	53,040
Acquisition of additional interests in a subsidiary	—	—	—	—	—	—	—	—	—	—	(148)	(148)	—
Disposal of subsidiaries	—	—	—	—	—	—	—	—	—	—	(11,059)	(11,059)	(126)
Transfer of reserves	—	—	—	—	—	—	—	1,299	(1,299)	—	—	—	—
Total transactions with owners	6,800	41,265	—	44	(12,157)	(7,925)	893	1,299	7,956	38,175	(11,207)	26,968	290,523
At end of period	84,777	403,500	1,188	222,685	167,943	—	2,693	63,236	674,811	1,620,833	12,438	1,633,271	1,471,378

### Notes:

#### 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 30 June, 2011.

The condensed interim accounts have been prepared under the historical cost convention except where stated otherwise in the accounting policies of the Group's annual accounts for the year ended 30 June, 2011.

## 2. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in: (i) the trading of fertilizers, pesticides and other agricultural resources products (the “trading operation”); (ii) the manufacturing and selling of pesticides and fertilizers (the “manufacturing operation”); (iii) the provision of plant protection technical services (the “consultancy operation”); (iv) the trading of non-agricultural resources products (“non-agricultural resources trading operation”) and (v) nursing, planting and sales of landscaping seedlings (“seedling operation”) in Mainland China.

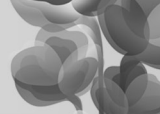
Turnover represents the sale value of goods supplied to customers and revenue from provision of services.

An analysis of turnover and segment results by business segment of the Group is as follows:

### (i) For the six months ended 31 December, 2011

	Trading operation HK\$'000	Manu- facturing operation HK\$'000	Consultancy operation HK\$'000	Non- agricultural resources trading operation HK\$'000	Seedling operation HK\$'000	Group HK\$'000
Revenue from external customers	1,535,919	70,472	10,107	568,426	35,318	2,220,242
Inter-segment revenue	2,501	7,688	—	12,554	—	22,743
Reportable segment revenue	<u>1,538,420</u>	<u>78,160</u>	<u>10,107</u>	<u>580,980</u>	<u>35,318</u>	<u>2,242,985</u>
Reportable segment profit/(loss) before taxation	<u>14,218</u>	<u>(5,832)</u>	<u>8,710</u>	<u>11,867</u>	<u>354</u>	<u>29,317</u>
Interest income	11,438	219	5	2,527	10	14,199
Finance cost	32,540	2,509	—	17,994	—	53,043
<i>Reconciliation of reportable segment profit:</i>						
Reportable segment profit						29,317
Unallocated gain from compensation of shortfall of guaranteed profit arising from an acquisition						120,000
Unallocated gain from change in fair value of derivative financial liabilities						21,567
Unallocated finance cost						(26,201)
Unallocated corporate expenses						(5,191)
Consolidated profit before taxation						<u>139,492</u>





(ii) For the six months ended 31 December, 2010

	Trading operation HK\$'000	Manu- facturing operation HK\$'000	Consultancy operation HK\$'000	Non- agricultural resources trading operation HK\$'000	Seedling operation HK\$'000	Group HK\$'000
Revenue from external customers	1,318,736	95,113	9,061	402,990	24,721	1,850,621
Inter-segment revenue	<u>10,216</u>	<u>8,822</u>	<u>—</u>	<u>17,719</u>	<u>—</u>	<u>36,757</u>
Reportable segment revenue	<u>1,328,952</u>	<u>103,935</u>	<u>9,061</u>	<u>420,709</u>	<u>24,721</u>	<u>1,887,378</u>
Reportable segment profit before taxation	<u>3,811</u>	<u>8,033</u>	<u>7,873</u>	<u>7,967</u>	<u>17,666</u>	<u>45,350</u>
Interest income	8,910	4	4	1,231	1	10,150
Finance cost	15,761	91	—	4,171	—	20,023
<i>Reconciliation of reportable segment profit:</i>						
Reportable segment profit						45,350
Unallocated gain from bargain purchases on acquisition of subsidiaries						216,511
Unallocated finance cost						(8,731)
Unallocated corporate expenses						<u>(7,099)</u>
Consolidated profit before taxation						<u>246,031</u>

As all the Group's revenue from external customers was generated in Mainland China, no geographical segment analysis is presented.

### 3. PROFIT BEFORE TAXATION

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

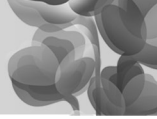
	Six months ended 31 December,	
	2011 HK\$'000	2010 HK\$'000
After charging:		
Interest on bank loans and other borrowings wholly repayable within five years	53,043	20,023
Interest on convertible bonds	20,496	6,871
Interest on promissory notes	5,705	1,860
Total interest expense on financial liabilities not at fair value through profit or loss	<u>79,244</u>	28,754
Staff costs (including directors' emoluments)	17,240	14,146
Amortisation		
— Lease premiums for land	181	139
— Product development costs	2,062	2,063
— Technical know-how	2,778	1,860
Operating lease rentals of premises	10,488	7,736
Depreciation of property, plant and equipment	<u>7,528</u>	4,866
After crediting:		
Interest income on financial assets not at fair value through profit or loss	14,199	10,150
Gain on disposal of subsidiaries	<u>11,547</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 16 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 1 January, 2008. Entities which are entitled to special incentive may continue to enjoy the given concessions, if applicable.

Except for deferred tax liabilities recognised on acquisition of subsidiaries in respect of fair value of intangible assets identified and recognised, no deferred tax liabilities on dividend have been recognised, as the Company controls the dividend policy of its subsidiaries and it has been determined that the profits earned by the Company's certain PRC subsidiaries for the period from 1 January, 2008 to 31 December, 2011 will not be distributed in the foreseeable future.



## 5. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

### (a) Earnings

	2011 HK\$'000	2010 HK\$'000
Earnings for the purpose of basic and diluted earnings per share	<u>133,850</u>	<u>239,316</u>

### (b) Weighted average number of ordinary shares

	Number of shares	
	2011 '000	2010 '000
Weighted average number of ordinary shares used in calculating basic earnings per share	792,961	650,917
Effect of dilutive potential shares arising from — share options	—	4,566
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>792,961</u>	<u>655,483</u>

Unlisted warrants had anti-dilutive effects on the basic earnings per share for the six months ended 31 December, 2011.

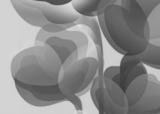
Convertible bonds had anti-dilutive effects on the basic earnings per share for the six months ended 31 December, 2010 and 2011.

## 6. LEASE PREMIUMS FOR LAND

	At 31 December, 2011 HK\$'000	At 30 June, 2011 HK\$'000
Leasehold land under medium-term leases in the PRC		
Carrying amount at beginning of period/year	11,748	3,349
Acquisition of subsidiaries	—	8,058
Amortisation	(181)	(203)
Exchange alignment	321	544
	<u>11,888</u>	<u>11,748</u>
Carrying amount at end of period/year	11,888	11,748
Analysed for reporting purpose:		
Current portion	279	272
Non-current portion	11,609	11,476
	<u>11,888</u>	<u>11,748</u>

## 7. BIOLOGICAL ASSETS

	At 31 December, 2011 HK\$'000	At 30 June, 2011 HK\$'000
At beginning of period/year	883,536	—
Acquisition through business combination	—	1,155,334
Additions	38,232	48,371
Harvested as agricultural produce	(11,695)	(67,963)
Loss arising from change in fair value less costs to sell of biological assets	(10,277)	(34,679)
Disposal of biological assets	—	(251,194)
Exchange alignment	22,193	33,667
	<u>921,989</u>	<u>883,536</u>
At end of period/year	921,989	883,536



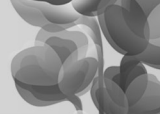
## 8. INTANGIBLE ASSETS

	System developments costs HK\$'000	Product development costs HK\$'000	Technical know-how HK\$'000	Total HK\$'000
Cost:				
At 1 July, 2011	55,381	54,355	147,954	257,690
Exchange alignment	1,381	1,355	3,688	6,424
	<u>56,762</u>	<u>55,710</u>	<u>151,642</u>	<u>264,114</u>
At 31 December, 2011	<u>56,762</u>	<u>55,710</u>	<u>151,642</u>	<u>264,114</u>
Accumulated amortisation and impairment:				
At 1 July, 2011	55,381	36,991	96,837	189,209
Charge for the period	—	2,062	2,778	4,840
Exchange alignment	1,381	943	2,443	4,767
	<u>56,762</u>	<u>39,996</u>	<u>102,058</u>	<u>198,816</u>
At 31 December, 2011	<u>56,762</u>	<u>39,996</u>	<u>102,058</u>	<u>198,816</u>
Carrying amount:				
At 31 December, 2011	<u>—</u>	<u>15,714</u>	<u>49,584</u>	<u>65,298</u>
At 30 June, 2011	<u>—</u>	<u>17,364</u>	<u>51,117</u>	<u>68,481</u>

## 9. GOODWILL

	HK\$'000
<hr/>	
Cost:	
At 1 July, 2011	123,633
Exchange alignment	<u>3,082</u>
At 31 December, 2011	<u>126,715</u>
Accumulated amortisation and impairment:	
At 1 July, 2011	25,303
Exchange alignment	<u>631</u>
At 31 December, 2011	<u>25,934</u>
Carrying amount:	
At 31 December, 2011	<u><u>100,781</u></u>
At 30 June, 2011	<u><u>98,330</u></u>

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, fertilizers 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.



## 10. TRADE AND OTHER RECEIVABLES

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

	At 31 December, 2011 HK\$'000	At 30 June, 2011 HK\$'000
0-90 days	597,998	705,114
91-180 days	196,599	39,659
181-365 days	9,291	44,347
Over 365 days	35	7,746
	<u>803,923</u>	<u>796,866</u>
Less: allowance for doubtful debts	<u>(13,075)</u>	<u>(13,075)</u>
	<u><u>790,848</u></u>	<u><u>783,791</u></u>

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

## 11. TRADE AND OTHER PAYABLES

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

	At 31 December, 2011 HK\$'000	At 30 June, 2011 HK\$'000
Due within 1 month or on demand	258,540	385,103
Due after 1 month but within 2 months	156,287	311,865
Due after 2 months but within 3 months	96,699	246,807
Due after 3 months but within 6 months	857,852	762,481
Due after 6 months	12,215	33,610
	<u>1,381,593</u>	<u>1,739,866</u>

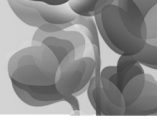
## 12. BANK LOANS

	At 31 December, 2011 HK\$'000	At 30 June, 2011 HK\$'000
Bank loans		
— secured	118,090	98,122
— unsecured	788,106	591,302
	<u>906,196</u>	<u>689,424</u>
Carrying amount repayable:		
On demand or within one year	891,389	674,977
After one year but not exceeding two years	—	—
After two years but not exceeding five years	14,807	14,447
	<u>906,196</u>	<u>689,424</u>
Less: Amount due within one year shown under current liabilities	<u>(891,389)</u>	<u>(674,977)</u>
Non-current liabilities	<u>14,807</u>	<u>14,447</u>

The bank loans bear interest at rates ranging from approximately 4% to 9% per annum.

As at 31 December, 2011, bank loans of approximately HK\$43,189,000 and HK\$74,901,000 (all denominated in Renminbi) were secured by certain land use rights and buildings, and bank deposits of the Group respectively. The unsecured bank loans were guaranteed by a director of the Company and independent third parties.





### 13. CONVERTIBLE BONDS

The movement of the liability component and derivative component of the convertible bonds are as follows:

#### Liability component

	At 31 December, 2011 HK\$'000	At 30 June, 2011 HK\$'000
At beginning of period/year	574,867	29,859
Issued during the period/year	—	619,774
Interest charged	20,496	28,520
Interest paid	—	(896)
Conversion	(31,403)	(102,390)
Redemption	(30,732)	—
At end of period/year	<u>533,228</u>	<u>574,867</u>
Analysed for reporting purpose:		
Current portion	—	30,623
Non-current portion	<u>533,228</u>	<u>544,244</u>
At end of period/year	<u>533,228</u>	<u>574,867</u>

#### Derivative Component

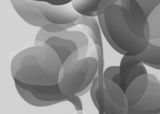
	At 31 December, 2011 HK\$'000	At 30 June, 2011 HK\$'000
At beginning of period/year	22,202	—
Issued during the period/year	—	46,749
Change in fair value of derivative financial liabilities	(7,914)	(24,547)
At end of period/year	<u>14,288</u>	<u>22,202</u>

## 14. PROMISSORY NOTES

	At 31 December, 2011 HK\$'000	At 30 June, 2011 HK\$'000
At beginning of period/year	182,016	—
Issued during the period/year	—	174,543
Interest charged	5,705	7,473
At end of period/year	<u>187,721</u>	<u>182,016</u>
Analysed for reporting purpose:		
Current portion	187,721	—
Non-current portion	—	182,016
	<u>187,721</u>	<u>182,016</u>

## 15. SHARE CAPITAL

	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 30 June, and 31 December, 2011	<u>3,000,000</u>	<u>300,000</u>
Issued and fully paid:		
At 30 June, 2011	779,767	77,977
Issue of consideration shares	28,000	2,800
Issue of new shares upon conversion of convertible bonds	<u>40,000</u>	<u>4,000</u>
At 31 December, 2011	<u>847,767</u>	<u>84,777</u>



## 16. COMMITMENTS

### a. Capital and other commitments:

As at 31 December, 2011, the Group had no significant outstanding contracted capital and other commitments.

### b. Operating lease commitments:

As at 31 December, 2011, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December, 2011 HK\$'000	At 30 June, 2011 HK\$'000
Within 1 year	14,879	14,002
After 1 year but within 5 years	26,027	27,254
After 5 years	60,235	59,876
	<u>101,141</u>	<u>101,132</u>

## 17. COMPARATIVE FIGURES

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

## Interim Dividend

The Board has resolved not to declare any interim dividend for the six months ended 31 December, 2011 (2010: nil).

## Business Review and Outlook

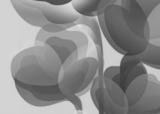
### Overall Results

For the six months ended 31 December, 2011, the Group's consolidated turnover was approximately HK\$2,220,242,000 (2010: HK\$1,850,621,000) and net profit attributable to owners of the Company was approximately HK\$133,850,000 (2010: HK\$239,316,000), representing a growth of about 20% and a decrease of about 44% respectively as compared to the last financial period. Net profit, excluding the impact of certain non-cashflow items (i.e. loss arising from change in fair value less costs to sell of biological assets, gain from bargain purchases on acquisition of subsidiaries (for the last reporting period), gain from change in fair value of derivative financial liabilities and notional interest expense on financial liabilities) was approximately HK\$148,761,000 (2010: HK\$31,536,000), represented an increase of about 372%, which was mainly due to the record of a gain from compensation of shortfall of guaranteed profit arising from an acquisition amounted to HK\$120 million during the period.

The Group's businesses can be divided into three categories, namely, (i) agricultural resources operation; (ii) trading of non-agricultural resources products; and (iii) seedling operation. Agricultural resources operation includes 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 seedling operation represents nursing, planting and sales of landscaping seedlings.

The increase in consolidated turnover of the Group was mainly due to the increase in trading of both agricultural resources and non-agricultural resources products as a result of gradual market resumption and increase in selling prices of fertilizers, pesticides and commodities since the last year. The overall gross profit margin of the Group of 6.2% was comparable to that of the last period.

The reportable segment profit of the Group was approximately HK\$29,317,000 (2010: HK\$45,350,000), representing a decrease of about 35%, which was mainly due to the increase in finance cost of operations in the Mainland China, which offset the effect of increase in turnover and gross profit of agricultural resources operation and trading of non-agricultural resources products during the period, as well as the unsatisfactory performance of the seedling operation during the period.



### **Agricultural resources operation and trading of non-agricultural resources products:**

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

	Six months ended 31 December,			
	2011		2010	
	Turnover HK\$'000	Percentage of the total turnover	Turnover HK\$'000	Percentage of the total turnover
Agricultural resources operation				
nitrogenous fertilizer	<b>171,215</b>	<b>8%</b>	165,996	9%
phosphorous fertilizer	<b>274,095</b>	<b>13%</b>	249,493	14%
potash fertilizer	<b>401,653</b>	<b>18%</b>	372,678	20%
compound fertilizer	<b>511,662</b>	<b>23%</b>	467,241	26%
pesticides	<b>257,873</b>	<b>12%</b>	167,502	9%
Agricultural resources products (subtotal)	<b>1,616,498</b>	<b>74%</b>	1,422,910	78%
Trading of non-agricultural resources products	<b>568,426</b>	<b>26%</b>	402,990	22%
Total	<b>2,184,924</b>	<b>100%</b>	1,825,900	100%

Aggregate sales volume of fertilizers, including nitrogenous fertilizer, phosphorous fertilizer, potash fertilizer and compound fertilizer, slightly increased from approximately 539,000 tonnes last period to approximately 540,000 tonnes this period. The aggregate turnover of fertilizers for this period was approximately HK\$1.359 billion, representing a growth of about 8% compared to approximately HK\$1.255 billion last period.

For pesticides, turnover sharply increased by 54% from approximately HK\$168 million last period to approximately HK\$258 million this period.

Turnover for trading of non-agricultural resources product increased by 41% from approximately HK\$403 million last period to approximately HK\$568 million this period.

Aggregate gross profit and reportable segment profit before taxation from agricultural resources operation and trading of non-agricultural resources products amounted to approximately HK\$119,180,000 (2010: HK\$99,956,000) and HK\$28,963,000 (2010: HK\$27,684,000) respectively, representing an increase of approximately 19% and 5% respectively as compared to the last period. Overall gross profit margin from these businesses was approximately 5.5% which was comparable to that of the last period. Gross profit of agricultural resources operation increased from approximately HK\$74.7 million last period to approximately HK\$86.4 million this period, while gross profit of trading of non-agricultural resources products increased from approximately HK\$25.3 million last period to approximately HK\$32.8 million this period. However, such increases were largely offset by the increase in finance costs during the period.

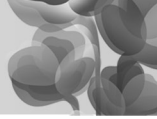
## **Agricultural Resources Operation**

### *(1) Nitrogenous fertilizer*

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 still thin and the Group recorded a gross profit margin of approximately 1.8% (2010: 1.7%). Therefore, in order to better allocate the Group's working capital resources and minimize operational risks, the Group reduced the trading of nitrogenous fertilizer in recent years and therefore, the sales volume decreased to approximately 83,000 tonnes (2010: 88,000 tonnes) while turnover increased by 3% to HK\$171 million (2010: HK\$166 million) due to increase in selling price.

### *(2) Phosphorous fertilizer*

During the period under review, the market demand for phosphorous fertilizers was comparable to that of the last period. The Group leveraged on its experience in the phosphorous fertilizer market and maintain short stock turnover days so as to minimize operational risk. As a result, sales volume of phosphorous fertilizer slightly increased to approximately 163,000 tonnes (2010: 162,000 tonnes), while turnover increased by 10% to HK\$274 million (2010: HK\$249 million) and gross profit margin increased from 3.8% last period to 4.0% this period due to increase in selling price.



(3) *Potash fertilizer*

During the period under review, the market demand for potash fertilizer was comparable to that of the last period. The Group continued to leverage on the advantages of central purchase and its own network to expand the operation of potash fertilizer. As a result, sales volume of potash fertilizer for the period increased by 2% to 107,000 tonnes (2010: 105,000 tonnes) while turnover increased by 8% to HK\$402 million (2010: HK\$373 million) due to increase in selling price. Gross profit margin was also slightly improved to approximately 4.2% (2010: 4.1%).

(4) *Compound fertilizer*

The Group provides specific compound fertilizer for different crops through its own production or procurement. During the period, the Group continued to optimize the product mix of compound fertilizer products to accommodate market demand. Sales volume slightly increased from approximately 184,000 tonnes last period to approximately 187,000 tonnes this period while turnover increased by 10% to approximately HK\$512 million (2010: HK\$467 million). Gross profit margin slightly increased from approximately 4.6% last period to approximately 4.7% this period due to increase in selling price.

(5) *Pesticides*

For pesticides, the Group has a large variety of high-value-added pesticide products which are developed through collaboration with different research institutes. Those pesticide products are either manufactured by the Group's own plants or through procurement and distribution. Turnover for the period increased by 54% to approximately HK\$258 million (2010: HK\$168 million) while average gross profit margin of pesticides decreased from approximately 15.4% last period to approximately 12.3% this period due to the increase in indent sales of pesticide products with relatively lower profit margin during the period.

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

For non-agricultural resources products, orders were increased due to gradual resumption of worldwide commodities market. During the period, the Group achieved satisfactory performance from trading of imported coals. As a result, turnover and gross profit increased by 41% and 30% to approximately HK\$568 million (2010: HK\$403 million) and HK\$32.8 million (2010: HK\$25.3 million) respectively this period, while operating profit margin also increased from approximately 2.7% last period to approximately 4.8% this period.

### **Seedling operation:**

The Group completed the acquisition of a landscaping seedling enterprise on 1 November, 2010. The enterprise, namely, Shanxi Astro-wood, currently operates a total of six seedling plantation bases in Shanxi and Beijing for the nursing, planting and sale of rare landscaping seedlings in the PRC. During the period, Shanxi Astro-wood contributed a turnover and net profit of approximately HK\$35.3 million (2010: HK\$24.7 million) and HK\$10.6 million (2010: HK\$17.7 million) respectively to the Group (excluding the loss arising from change in fair value less costs to sell of biological assets). However, as the seedling business failed to achieve the target profit for the year ended 30 June, 2011 as stipulated in the sale and purchase agreement for such acquisition, one of vendors, being the guarantor for the target profit, was obliged to pay the Company an amount of HK\$120 million which was recorded by the Company as an unallocated other income ("Gain from compensation of shortfall of guaranteed profit arising from an acquisition") during the period.

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

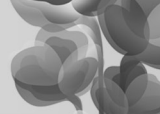
As detailed in the Company's announcement dated 27 February, 2012, the plaintiff applied to the court for withdrawal of the suit against Shanxi Astro-wood in respect of a plantation base, which was permitted by the court on 22 February, 2012. It is expected that the relevant seal-up order against the plantation base will be unwind by the court shortly and Shanxi Astro-wood will resume all its rights to the plantation base thereafter.

### **Corporate Strategies and Prospects**

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

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





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

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

## 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 31 December, 2011, cash and cash equivalents and restricted bank deposits of approximately HK\$711,948,000 included HK\$530,000 which was denominated in Hong Kong dollars, HK\$6,560,000 which was denominated in US dollars and HK\$704,858,000 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.

### Indebtedness and Banking Facilities

As at 31 December, 2011, the Group had bank borrowings of approximately HK\$906,196,000 (approximately HK\$758,862,000 was denominated in Renminbi and approximately HK\$147,334,000 was denominated in US/Euro dollars) bearing interest at rates ranging from approximately 4% to 9% per annum. As at 31 December, 2011, the Group had bills payable of approximately HK\$1.324 billion which was secured by pledged bank deposits of approximately HK\$533 million.

As at 31 December, 2011, the Group had (i) convertible bonds (due in November 2015) and promissory notes (due in December 2012) with outstanding principal amount of HK\$623 million and HK\$200 million respectively, both were denominated in Hong Kong dollars and non-interest bearing; and (ii) convertible bonds (due in January 2016) with outstanding principal amount of RMB70 million which was denominated in Renminbi and bore a yield-on-maturity/redemption of 6% per annum on a compound basis.

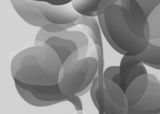
As at 31 December, 2011, the Group's gearing ratio is approximately 100%. This is based on the division of the total amount of bank loans, promissory notes and convertible bonds (liability components) by total equity attributable to owners of the Company as at 31 December, 2011. The Directors, taking into account of the nature and scale of operations and capital structure of the Group, considered that the gearing ratio as at 31 December, 2011 was healthy.

## Securities in Issue

On 28 November, 2011, the Company issued 100,000,000 warrants ("2013 Unlisted Warrants") at the issue price of HK\$0.01 per warrant pursuant to a subscription agreement dated 17 November, 2011. The warrant holder has the right to exercise the subscription rights attaching to the warrants, in whole or in part, at the subscription price of HK\$0.40 per subscription share at any time within 18 months commencing from the date of issue of the warrants. The warrants are not listed on the Stock Exchange or any other stock exchanges. The net proceeds of approximately HK\$900,000 from the issue of the warrants were used as general working capital of the Group. No warrant was exercised during the period.

During the period:

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



As at 31 December, 2011, there were 847,765,216 ordinary shares in issue and potential ordinary shares arising from (i) the convertible bonds (due in November 2015) in an aggregate outstanding principal amount of HK\$623,000,000 at the conversion price of HK\$1.00 per share (subject to adjustments); (ii) the convertible bonds (due in January 2016) in an aggregate outstanding accreted principal amount of approximately HK\$86,205,000 (being original principal of HK\$81,680,000 plus accrued interest of HK\$4,525,000) at the reset conversion price of HK\$0.70 per share (subject to adjustments); (iii) unlisted warrants (to be expired in January 2016) conferring rights to subscribe for 60,000,000 shares at the subscription price of HK\$1.20 per share; and (iv) 2013 Unlisted Warrants conferring rights to subscribe for 100,000,000 shares at the subscription price of HK\$0.40 per share.

Save as disclosed above, there was no movement in the issued share capital of the Company during the six months ended 31 December, 2011.

### **Commitments**

As at 31 December, 2011, the Group had no significant outstanding contracted capital commitments, and the operating lease commitments was approximately HK\$101.1 million of which approximately HK\$46.7 million is in respect of operating leases of seedling plantation bases with remaining lease terms ranging from 18 to 48 years.

### **Contingent Liabilities**

As at 31 December, 2011, 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\$17.2 million with an average number of about 1,000 staff during the six months ended 31 December, 2011.

Remuneration packages comprised salary, mandatory provident fund and year-end bonus based on individual merits. The share option scheme, adopted by the Company on 31 December, 2001 (the "Scheme"), had expired by effluxion of time on 30 December 2011. During the six months ended 31 December, 2011, no share option was granted to the relevant participants under the Scheme (2010: nil).

## Events after the Reporting Period

As detailed in the Company's announcement dated 27 February, 2012, the plaintiff applied to the court for withdrawal of the suit against Shanxi Astro-wood in respect of a plantation base, which was permitted by the court on 22 February, 2012. It is expected that the relevant seal-up order against the plantation base will be unwind by the court shortly and Shanxi Astrowood will resume all its rights to the plantation base thereafter.

## Directors' and Chief Executives' Interests in Securities

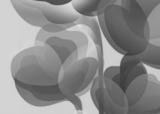
As at 31 December, 2011, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register 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 and underlying shares of the Company

Name of director	Capacity	Number of shares held	Approximate	
			Number of underlying shares held	percentage of issued share capital
Wu Shaoning	Beneficial owner	223,200,000	—	26.33%
	Beneficial owner	—	256,000,000	30.20%
(Note)				

Note: The 256,000,000 underlying shares are in respect of the convertible bonds (due in November 2015) (unlisted equity derivatives) of the Company in the aggregate principal amount of HK\$256,000,000 at a conversion price of HK\$1.00 per share (subject to adjustments). Upon full conversion of such convertible bonds, 256,000,000 shares of the Company would be issued to Mr. Wu Shaoning.

Save as disclosed above, as at 31 December, 2011, none of the Directors and chief executives of the Company 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 31 December, 2011, so far as is known to the Directors, the interests or short positions of substantial shareholders/other persons in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

### Long positions in shares of the Company

<b>Name</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Approximate percentage of issued share capital</b>
Wu Shaoning ( <i>director</i> )	Beneficial owner	223,200,000	26.33%

### Long positions in underlying shares of the Company

<b>Name</b>	<b>Capacity</b>	<b>Number of underlying shares held</b>	<b>Notes</b>	<b>Approximate percentage of issued share capital</b>
Wu Shaoning ( <i>director</i> )	Beneficial owner	256,000,000	1	30.20%
Xue Zhixin	Beneficial owner	226,000,000	1	26.66%
Concept Capital Management Limited	Beneficial owner	216,152,342	2	25.50%
Nian Ai Feng	Beneficial owner	100,000,000	3	11.80%
Wang Rong	Beneficial owner	49,000,000	1	5.78%
Qiu Baoyu	Beneficial owner	48,000,000	1,4	5.66%
Zhang Yande	Beneficial owner	48,000,000	1,4	5.66%

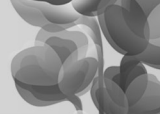
## Notes:

1. The interests in underlying shares of unlisted equity derivatives represent interests in convertible bonds (due in November 2015) of the Company in which they are unissued shares.
2. The interests in underlying shares of unlisted equity derivatives comprise interests in convertible bonds (due in January 2016) of the Company in which they are unissued shares as to 156,152,342 shares upon full conversion on maturity date of 28 January 2016, and interests in unlisted warrants (to be expired in January 2016) conferring rights to subscribe for 60,000,000 shares of the Company.
3. The interests in underlying shares of unlisted equity derivatives represent interests in unlisted warrants (to be expired in May 2013) conferring rights to subscribe for 100,000,000 shares of the Company.
4. This represents the same equity interests jointly held by Qiu Baoyu and Zhang Yande.

Save as disclosed above, as at 31 December, 2011, the Company had not been notified of any other interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register kept by the Company under Section 336 of the SFO.

## Directors' Rights to Acquire Shares or Debt Securities

Save as disclosed under the headings "Directors' and Chief Executives' Interests in Securities" and "Substantial Shareholders' Interests in Securities" above, at no time during the six months ended 31 December, 2011 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 31 December, 2001, the Company adopted the Share Option Scheme, the principal terms of which are set out in the Company's Annual Report 2011.

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

Category of participant	Number of Shares in respect of Options				Outstanding as at 31 December, 2011	Date of grant	Exercisable period	Exercise price per share HK\$
	Balance as at 1 July, 2011	Granted during the period	Exercised during the period	Lapsed during the period (Note 1)				
<b>Employees</b>								
In aggregate	400,000	—	—	400,000	—	01/12/2003	01/01/2004 – 30/12/2011	0.55
	48,270,000	—	—	48,270,000	—	27/07/2009	27/07/2009 – 30/12/2011	0.72
	<u>48,670,000</u>	<u>—</u>	<u>—</u>	<u>48,670,000</u>	<u>—</u>			
<b>Total</b>	<u>48,670,000</u>	<u>—</u>	<u>—</u>	<u>48,670,000</u>	<u>—</u>			

Notes:

- Option has been lapsed on 30 December, 2011 upon expiry of the option period.
- Since no option was exercised during the six months ended 31 December, 2011, the weighted average closing price immediately before the exercise date (if exercised) is not applicable.
- The Share Option Scheme had expired by effluxion of time on 30 December, 2011.

## 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 31 December, 2011. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 31 December, 2011.

## Code on Corporate Governance Practices

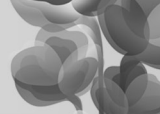
The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 31 December, 2011, except for the following major deviations:

1. Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, the roles of Chairman and Chief Executive Officer of the Company have been performed by Mr. Wu Shaoning. This constitutes a deviation from code provision A.2.1 of the CG Code. As continuation is a key factor to the successful implementation of business plans, the Board believes that the roles of Chairman and Chief Executive Officer performed by Mr. Wu Shaoning provide the Group with strong and consistent leadership and are beneficial to the Group especially in planning and execution of business strategies. The Board also believes that the present arrangement is beneficial to the Company and the shareholders as a whole.
2. Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election. All independent non-executive directors of the Company are appointed for a specific term except for Mr. Lam Ming Yung who was not appointed for any specific term but subject to retirement by rotation once every three years in accordance with the Company's Articles of Association. Upon the resignation of Mr. Lam Ming Yung as an independent non-executive director of the Company on 15 December, 2011, Mr. Li Yik Sang was appointed as an independent non-executive director of the Company on the same date and entered into a letter of appointment with the Company for a term of one year. The Company has complied with code provision A.4.1 since 15 December, 2011.

## 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 made specific enquiry with all Directors and all of them confirmed that they have complied with the Model Code throughout the six months ended 31 December, 2011.





## Review of Accounts

The Audit Committee comprises 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 internal control and financial reporting matters including review of the unaudited interim accounts of the Group for the six months ended 31 December, 2011.

## Board of Directors

As at the date of this report, the Board comprises Mr. Wu Shaoning and Mr. Yang Zhuoya, who are the executive directors of the Company, and Mr. Zhang Shaosheng, Mr. Wong Kin Tak and Mr. Li Yik Sang, who are the independent non-executive directors of the Company.

On behalf of the Board

**China Agrotech Holdings Limited**

**Wu Shaoning**

*Chairman*

Hong Kong, 28 February, 2012