



Interim Report
2006/2007



China Agrotech Holdings Limited

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



The Directors of China Agrotech Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 31st December, 2006 together with the comparative figures for the corresponding period in 2005 as set out below. This interim report has been reviewed by the Company’s audit committee.

Consolidated Income Statement (unaudited)

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

**Consolidated Balance Sheet (unaudited)**

| | Note | At 31st December, 2006 HK\$'000 | At 30th June, 2006 HK\$'000 |
|---|------|--|--------------------------------------|
| NON-CURRENT ASSETS | | | |
| System development costs | 6 | 7,591 | 11,909 |
| Goodwill | 7 | 81,230 | 79,653 |
| Other intangible assets | 8 | 49,573 | 58,185 |
| Property, plant and equipment | | 39,879 | 40,865 |
| Investment property | | 26,346 | 25,834 |
| Lease premium for land | 9 | 8,840 | 12,830 |
| | | <u>213,459</u> | <u>229,276</u> |
| CURRENT ASSETS | | | |
| Inventories | | 206,606 | 171,729 |
| Current portion of lease premium for land | 9 | 250 | 340 |
| Other receivables, deposit and prepayments | | 603,806 | 461,185 |
| Trade and bills receivables | 10 | 192,560 | 218,363 |
| Financial assets at fair value through profit or loss | | 149 | 631 |
| Restricted bank deposits | | 150,311 | 209,852 |
| Cash and bank balances | | 136,153 | 145,802 |
| Total current assets | | <u>1,289,835</u> | <u>1,208,902</u> |
| CURRENT LIABILITIES | | | |
| Trade and bills payable | 11 | (603,121) | (674,462) |
| Accruals and other payables | | (178,129) | (127,819) |
| Taxation payable | | (9,988) | (9,960) |
| Due to a director | | - | (332) |
| Current portion of interest-bearing and secured bank loans | 12 | (239,957) | (200,559) |
| Total current liabilities | | <u>(1,031,195)</u> | <u>(1,013,132)</u> |



| | Note | At 31st December, 2006 HK\$'000 | At 30th June, 2006 HK\$'000 |
|---|------|--|--------------------------------------|
| Net current assets | | <u>258,640</u> | <u>195,770</u> |
| Total assets less current liabilities | | <u>472,099</u> | <u>425,046</u> |
| Non-current liabilities | | | |
| Interest-bearing and secured bank loans | 12 | <u>—</u> | <u>(971)</u> |
| NET ASSETS | | <u>472,099</u> | <u>424,075</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 13 | <u>46,467</u> | <u>42,157</u> |
| Reserves | | <u>422,748</u> | <u>375,605</u> |
| Total equity attributable to equity holders of the company | | <u>469,215</u> | <u>417,762</u> |
| Minority interests | | <u>2,884</u> | <u>6,313</u> |
| TOTAL EQUITY | | <u>472,099</u> | <u>424,075</u> |

**Consolidated Cash Flow Statement (unaudited)**

| | Six months ended | |
|---|-------------------------|-----------------|
| | 31st December, | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| NET CASH INFLOW/(OUTFLOW) FROM OPERATIONS | (128,168) | 20,304 |
| Finance costs paid | (13,237) | (5,983) |
| Mainland China enterprise income tax paid | (381) | (348) |
| | <hr/> | <hr/> |
| NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES | (141,786) | 13,973 |
| | <hr/> | <hr/> |
| INVESTING ACTIVITIES | | |
| Interest received | 10,051 | 4,648 |
| Purchase of property, plant and equipment | (2,514) | (2,778) |
| Sale proceeds of property, plant and equipment | 678 | 70 |
| Purchase of businesses | – | (13,461) |
| Sale proceeds of lease premium for land | 4,177 | – |
| Sale proceeds of financial assets at fair value through profit or loss | 495 | – |
| | <hr/> | <hr/> |
| Net cash inflow/(outflow) from investing activities | 12,887 | (11,521) |
| | <hr/> | <hr/> |
| Net cash inflow/(outflow) before financing | (128,899) | 2,452 |
| | <hr/> | <hr/> |
| FINANCING | | |
| Issue of new shares | 18,515 | – |
| New bank loans | 34,436 | 1,684 |
| Advance from/(Repayment to) a director | (338) | 2,901 |
| Capital contribution from minority shareholders | – | 788 |
| Decrease in restricted bank deposits | 63,696 | 13,270 |
| | <hr/> | <hr/> |
| Net cash inflow from financing | 116,309 | 18,643 |
| | <hr/> | <hr/> |
| Increase/(decrease) in cash and cash equivalents | (12,590) | 21,095 |
| Cash and cash equivalents at beginning of period | 145,802 | 53,368 |
| Effect of foreign exchange rate changes | 2,941 | 1,131 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at end of period, representing cash and bank balances | 136,153 | 75,594 |
| | <hr/> | <hr/> |



Consolidated Statement of Changes in Equity (unaudited)

Six months ended 31st December, 2006

| | Attributable to equity holders of the Company | | | | | | | | | | | Six months ended 31st December, 2005 Total HK\$'000 |
|---|---|------------------------------|-----------------------------------|--------------------------------|---------------------------------|--|--|----------------------------------|-------------------|-----------------------------------|-------------------|--|
| | Share capital HK\$'000 | Share premium HK\$'000 | Statutory reserves HK\$'000 | Capital reserve HK\$'000 | Exchange reserve HK\$'000 | Investment property revaluation reserve HK\$'000 | Employee share-based compensation reserve HK\$'000 | Retained earnings HK\$'000 | Total HK\$'000 | Minority interests HK\$'000 | Total HK\$'000 | |
| At beginning of period | 42,157 | 98,550 | 45,106 | 1,188 | 9,306 | 7,833 | 2,769 | 210,853 | 417,762 | 6,313 | 424,075 | 341,328 |
| Revaluation of investment property upon change in use | - | - | - | - | - | - | - | - | - | - | - | 7,601 |
| Issue of new shares upon exercise of share options | 4,310 | 14,205 | - | - | - | - | - | 18,515 | - | - | 18,515 | - |
| Translation adjustments | - | - | - | - | 8,002 | - | - | - | 8,002 | 10 | 8,012 | 7,466 |
| Minority interest of new subsidiaries | - | - | - | - | - | - | - | - | - | - | - | 788 |
| Transfer of reserves | - | - | 4,301 | - | - | - | - | (4,301) | - | - | - | - |
| Effect of HKFRS 2 "Share-based payment" | - | - | - | - | - | - | 2,386 | - | 2,386 | - | 2,386 | 1,443 |
| Net profit/(loss) for the period | - | - | - | - | - | - | - | 22,550 | 22,550 | (3,439) | 19,111 | 11,808 |
| At end of period | 46,467 | 112,755 | 49,407 | 1,188 | 17,308 | 7,833 | 5,155 | 229,102 | 469,215 | 2,884 | 472,099 | 370,434 |

Note:

1. Basis of presentation and principal accounting policies

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

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

The principal accounting policies used in the preparation of these condensed interim accounts are consistent with those used in the Group's annual accounts for the year ended 30th June, 2006.



2. Segment information

a. Primary reporting format-business segments

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

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

(i) For the six months ended 31st December, 2006

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



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

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

b. Secondary reporting format-geographical segments

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



3. Profit before taxation

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

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

4. Taxation

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

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

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

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



5. Earnings per share

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

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

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

6. System Development Costs

| | Total HK\$'000 |
|---------------------------|--------------------------|
| Cost: | |
| At 1st July, 2006 | 44,661 |
| Exchange alignment | 884 |
| | <hr/> |
| At 31st December, 2006 | 45,545 |
| | <hr/> |
| Accumulated amortisation: | |
| At 1st July, 2006 | 32,752 |
| Charge for the period | 4,554 |
| Exchange alignment | 648 |
| | <hr/> |
| At 31st December, 2006 | 37,954 |
| | <hr/> |
| Net book value: | |
| At 31st December, 2006 | 7,591 |
| | <hr/> |
| At 30th June, 2006 | 11,909 |
| | <hr/> |

**7. Goodwill**

| | |
|------------------------|---------------|
| | HK\$'000 |
| Carrying value: | |
| At 1st July, 2006 | 79,653 |
| Exchange alignment | <u>1,577</u> |
| At 31st December, 2006 | <u>81,230</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, 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. Other intangible assets

| | Product development costs | Technical know-how | Total |
|---------------------------|--|-------------------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost: | | | |
| At 1st July, 2006 | 28,492 | 88,931 | 117,423 |
| Exchange alignment | <u>564</u> | <u>1,761</u> | <u>2,325</u> |
| At 31st December, 2006 | <u>29,056</u> | <u>90,692</u> | <u>119,748</u> |
| Accumulated amortisation: | | | |
| At 1st July, 2006 | 12,726 | 46,512 | 59,238 |
| Charge for the period | 1,133 | 8,631 | 9,764 |
| Exchange alignment | <u>252</u> | <u>921</u> | <u>1,173</u> |
| At 31st December, 2006 | <u>14,111</u> | <u>56,064</u> | <u>70,175</u> |
| Net book value: | | | |
| At 31st December, 2006 | <u>14,945</u> | <u>34,628</u> | <u>49,573</u> |
| At 30th June, 2006 | <u>15,766</u> | <u>42,419</u> | <u>58,185</u> |



9. Lease premium for land

| | At 31st December, 2006 HK\$'000 | At 30th June, 2006 HK\$'000 |
|--|--|--------------------------------------|
| Leasehold land under medium-term leases in the PRC | 9,090 | 13,170 |
| Analysed as: | | |
| Non-current portion | 8,840 | 12,830 |
| Current portion | 250 | 340 |
| | 9,090 | 13,170 |

10. Trade and bills receivables

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

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



11. Trade and bills payable

Aging analysis of trade and bills payable is as follows:

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

12. Interest-bearing bank loans, secured

| | At 31st December, 2006 HK\$'000 | At 30th June, 2006 HK\$'000 |
|--|--|--------------------------------------|
| Interest-bearing bank loans – secured | <u>239,957</u> | <u>201,530</u> |
| Bank loans – repayable within 1 year or on demand | 239,957 | 200,559 |
| – repayable after 1 year but within 2 years | <u>-</u> | <u>971</u> |
| | <u>239,957</u> | <u>201,530</u> |

The bank loans bear interest at rates ranging from approximately 5.2% to 8.8% per annum.

Bank loans of approximately HK\$13,861,000, HK\$9,228,000 and HK\$216,868,000 (all denominated in Renminbi) were secured by certain properties of a minority shareholder of a subsidiary, certain investment property and property, plant and equipment of the Group, as well as corporate guarantees provided by certain subsidiaries of the Group and/or personal guarantees provided by a director of the Company, respectively.



13. Share capital

| | Number of shares '000 | Nominal value HK\$'000 |
|----------------------------------|-------------------------------------|--------------------------------------|
| Ordinary shares of HK\$0.10 each | | |
| Authorised: | | |
| At 30th June, 2006 | 500,000 | 50,000 |
| Increase | | |
| At 31st December, 2006 | <u>2,500,000</u> | <u>250,000</u> |
| | <u>3,000,000</u> | <u>300,000</u> |
| Issued and fully paid: | | |
| At 30th June, 2006 | 421,565 | 42,157 |
| Exercise of share options | | |
| At 31st December, 2006 | <u>43,100</u> | <u>4,310</u> |
| | <u>464,665</u> | <u>46,467</u> |

A special resolution was passed at the Company's extraordinary general meeting held on 1st March, 2006 to increase the authorised share capital from HK\$50,000,000 to HK\$300,000,000 by the creation of 2,500,000,000 shares of HK\$0.10 each.

14. Commitments

a. Capital and other commitments:

As at 31st December, 2006, the Group had no significant outstanding contracted capital and other commitments (at 30th June, 2006: Nil).



b. Operating lease commitments:

At 31st December, 2006, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | At 31st December, 2006 HK\$'000 | At 30th June, 2006 HK\$'000 |
|---------------------------------------|--|--------------------------------------|
| Within one year | 2,363 | 1,397 |
| In the second to fifth year inclusive | 2,912 | 3,328 |
| After the fifth year | - | 1,248 |
| | 5,275 | 5,973 |

15. Comparative figures

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

INTERIM DIVIDEND

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

BUSINESS REVIEW AND OUTLOOK

Overall Results

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

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



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

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

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

AGRICULTURAL RESOURCES TRADING BUSINESS

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

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



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

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

AGRICULTURAL RESOURCES PRODUCTION BUSINESS

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

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

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

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



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

PLANT PROTECTION TECHNICAL SERVICES

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

NON-AGRICULTURAL RESOURCES PRODUCTS TRADING BUSINESS

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

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

LIQUIDITY AND FINANCIAL RESOURCES

Financial resources

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

As at 31st December, 2006, the aggregated cash and bank balances and restricted bank deposits of HK\$286,464,000 included HK\$11,077,000, which was denominated in Hong Kong dollars; HK\$7,618,000 which was denominated in US dollars and HK\$267,769,000 which was denominated in Renminbi.

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



Borrowings and banking facilities

As at 31st December, 2006, the Group had bank borrowings of HK\$239,957,000 which was denominated in Renminbi (note 12). As at 31st December, 2006, the Group had bills payable of HK\$481,501,000 which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of the Group of HK\$150,311,000 which was also denominated in Renminbi.

As at 31st December, 2006, the Group maintained a gearing ratio of approximately 51%. This is based on the division of the total amount of bank loans by equity attributable to equity holders of the Company as at 31st December, 2006. The Directors considered that the gearing ratio as at 31st December, 2006 was healthy, taking into account of the scale of operations of the Group.

Commitments

As at 31st December, 2006, the Group had no significant outstanding contracted capital commitments (note 14), as well as operating lease commitments of approximately HK\$5,275,000.

Contingent liabilities

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

Remuneration Policies and Share Option Scheme

The Group incurred total salaries and other remunerations of approximately HK\$9,975,000 with an average number of about 1,000 staff during the six months ended 31st December, 2006.

Remuneration packages comprised salary, mandatory provident fund and year end bonus based on individual merits. A share option scheme (the "Share Option Scheme") was adopted by the Company pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31st December, 2001 and its limit was refreshed on 1st March, 2006. During the six months period ended 31st December, 2006, no options were granted to the relevant participants under the Share Option Scheme (2005: options of 11,000,000 shares were granted).



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st December, 2006, 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 | Number of ordinary shares | | | Total | Approximate percentage of issued share capital |
|------------------|---------------------------|------------------|---------------------|-------------|--|
| | Personal interests | Family interests | Corporate interests | | |
| Mr. Wu Shaoning | 186,200,000 | – | – | 186,200,000 | 40.07% |
| Mr. Yang Zhuoya | 4,200,000 | – | – | 4,200,000 | 0.90% |

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, 2006, so far as is known to the Directors, no parties (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, 2006 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 2006.

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:

| Name or category of participant | Balance as at 1st July, 2006 | Granted during the period | Exercised during the period | Number of Shares in respect of Options Outstanding | | Date of grant | Exercisable period | Exercise price per share HK\$ | Weighted average closing price (Note 2) HK\$ |
|---------------------------------|------------------------------|---------------------------|-----------------------------|--|---------------------------|---------------|-------------------------|----------------------------------|--|
| | | | | Lapsed/Cancelled during the period (Note 1) | as at 31st December, 2006 | | | | |
| Directors: | | | | | | | | | |
| Mr. Wu Shaoning | 3,500,000 | - | 3,500,000 | - | - | 01/12/2003 | 01/01/2004 - 30/12/2011 | 0.55 | 1.05 |
| | 700,000 | - | 700,000 | - | - | 16/05/2006 | 15/09/2006 - 30/12/2011 | 0.455 | 1.05 |
| Mr. Yang Zhuoya | 3,500,000 | - | 3,500,000 | - | - | 01/12/2003 | 01/01/2004 - 30/12/2011 | 0.55 | 1.05 |
| | 700,000 | - | 700,000 | - | - | 16/05/2006 | 15/09/2006 - 30/12/2011 | 0.455 | 1.05 |
| Employees | | | | | | | | | |
| In aggregate | 5,500,000 | - | 1,500,000 | - | 4,000,000 | 01/12/2003 | 01/01/2004 - 30/12/2011 | 0.55 | 0.85 |
| | 11,000,000 | - | 11,000,000 | - | - | 23/12/2005 | 01/01/2006 - 30/12/2011 | 0.282 | 0.85 |
| | 44,100,000 | - | 22,200,000 | - | 21,900,000 | 16/05/2006 | 15/09/2006 - 30/12/2011 | 0.455 | 0.855 |
| Total | 69,000,000 | - | 43,100,000 | - | 25,900,000 | | | | |

Notes:

- No option has been lapsed or cancelled during the six months ended 31st December, 2006.
- This represents weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised. A total of 43,100,000 options were exercised during the six months ended 31st December, 2006, the weighted average closing price of the shares immediately before the dates on which the options were exercised was approximately HK\$0.891.



PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not redeem any of its listed securities during the six months ended 31st December, 2006. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 31st December, 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules ("CG Code") throughout the six months ended 31st December 2006, except for the following deviations:

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



AUDIT COMMITTEE

The Audit Committee comprises Mr. Lam Ming Yung, Mr. Zhang Shaosheng and Mr. Wong Chi Wai, the three independent non-executive directors of the Company. The audit committee has reviewed with the Company's management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including review of the unaudited interim accounts of the Group for the six months ended 31st December, 2006.

REMUNERATION COMMITTEE

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

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, 2006.

On behalf of the Board
Wu Shaoning
Chairman

Hong Kong, 26th March, 2007