



China Agrotech Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1073)



Interim Report
2007/2008



The Directors of China Agrotech Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 31st December, 2007 together with the comparative figures for the corresponding period in 2006 as set out below. This interim report has been reviewed by the Company’s audit committee.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	Six months ended 31st December,	
		2007 HK\$'000	2006 HK\$'000
Turnover	2	1,217,066	752,688
Cost of sales		<u>(1,099,029)</u>	<u>(671,421)</u>
Gross profit		118,037	81,267
Other revenues		15,294	10,598
Selling and distribution expenses		(45,749)	(20,625)
General and administrative expenses		<u>(36,236)</u>	<u>(38,680)</u>
Profit from operations		51,346	32,560
Finance costs		<u>(19,698)</u>	<u>(13,237)</u>
Profit before taxation	3	31,648	19,323
Taxation	4	<u>(2,422)</u>	<u>(212)</u>
Net profit for the period		<u>29,226</u>	<u>19,111</u>
Net profit/(loss) attributable to:			
Equity holders of the Company		30,621	22,550
Minority interests		<u>(1,395)</u>	<u>(3,439)</u>
		<u>29,226</u>	<u>19,111</u>
Dividends	5	<u>12,734</u>	<u>–</u>
Earnings per share for profit attributable to the equity holders of the Company during the period	6		
– Basic		<u>HK6.3 cents</u>	<u>HK5.2 cents</u>
– Diluted		<u>HK6.1 cents</u>	<u>HK5.1 cents</u>



CONSOLIDATED BALANCE SHEET (UNAUDITED)

		At 31st December, 2007	At 30th June, 2007
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Goodwill	7	94,670	84,580
Intangible assets	8	51,058	61,844
Property, plant and equipment		41,592	39,884
Investment property		33,676	32,496
Lease premium for land	9	9,681	9,376
		<u>230,677</u>	<u>228,180</u>
CURRENT ASSETS			
Inventories		238,957	188,875
Current portion of lease premium for land	9	299	287
Other receivables, deposit and prepayments		934,338	976,195
Trade and bills receivables	10	370,337	337,148
Restricted bank deposits		223,885	206,407
Cash and bank balances		<u>168,654</u>	<u>171,227</u>
Total current assets		<u>1,936,470</u>	<u>1,880,139</u>
CURRENT LIABILITIES			
Trade and bills payable	11	(986,681)	(821,781)
Accruals and other payables		(259,518)	(419,715)
Taxation payable		(19,402)	(17,213)
Bank loans	12	(287,441)	(287,219)
Dividend payable		<u>(12,734)</u>	<u>–</u>
Total current liabilities		<u>(1,565,776)</u>	<u>(1,545,928)</u>



		At 31st December, 2007	At 30th June, 2007
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net current assets		<u>370,694</u>	<u>334,211</u>
Total assets less current liabilities		<u>601,371</u>	<u>562,391</u>
NET ASSETS		<u>601,371</u>	<u>562,391</u>
CAPITAL AND RESERVES			
Share capital	13	48,977	48,977
Reserves		<u>549,406</u>	<u>506,990</u>
Total equity attributable to equity holders of the company		598,383	555,967
Minority interests		<u>2,988</u>	<u>6,424</u>
TOTAL EQUITY		<u>601,371</u>	<u>562,391</u>



CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended	
	31st December,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW)		
FROM OPERATIONS	32,577	(128,168)
Finance costs paid	(19,698)	(13,237)
Mainland China enterprise income tax paid	(973)	(381)
	<hr/>	<hr/>
NET CASH INFLOW/(OUTFLOW) FROM		
OPERATING ACTIVITIES	11,906	(141,786)
	<hr/>	<hr/>
INVESTING ACTIVITIES		
Interest received	11,320	10,051
Purchase of property, plant and equipment	(4,563)	(2,514)
Sale proceeds of property, plant and equipment	57	678
Purchase of businesses	(6,452)	–
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 from investing activities	362	12,887
	<hr/>	<hr/>
Net cash inflow/(outflow) before financing	12,268	(128,899)
	<hr/>	<hr/>
FINANCING		
Issue of new shares	–	18,515
New bank loans	–	34,436
Repayment of bank loans	(12,132)	–
Repayment to a director	–	(338)
Capital contribution from minority shareholders	21	–
Decrease/(increase) in restricted bank deposits	(8,600)	63,696
	<hr/>	<hr/>
Net cash inflow/(outflow) from financing	(20,711)	116,309
	<hr/>	<hr/>
Decrease in cash and cash equivalents	(8,443)	(12,590)
Cash and cash equivalents at beginning of period	171,227	145,802
Effect of foreign exchange rate changes	5,870	2,941
	<hr/>	<hr/>
Cash and cash equivalents at end of period,		
representing cash and bank balances	<u>168,654</u>	<u>136,153</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Six months ended 31st December, 2007

	Attributable to equity holders of the Company										Six months ended 31st December, 2006	
	Share capital	Share premium	Statutory reserves	Capital reserve	Exchange reserve	Investment revaluation reserve	Warrants reserve	Retained earnings	Total	Minority 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
At beginning of period	48,977	127,125	49,583	1,188	34,293	7,833	-	286,968	555,967	6,424	562,391	424,075
Issue of unlisted warrants	-	-	-	-	-	-	2,520	-	2,520	-	2,520	-
Issue of new shares upon exercise of share options	-	-	-	-	-	-	-	-	-	-	-	18,515
Translation adjustments	-	-	-	-	22,009	-	-	-	22,009	-	22,009	8,012
Minority interest of new subsidiaries	-	-	-	-	-	-	-	-	-	21	21	-
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	(2,062)	(2,062)	-
Transfer of reserves	-	-	3,828	-	-	-	-	(3,828)	-	-	-	-
Effect of HKFRS 2 "Share-based payment"	-	-	-	-	-	-	-	-	-	-	-	2,386
Net profit/(loss) for the period	-	-	-	-	-	-	-	30,621	30,621	(1,395)	29,226	19,111
Dividend for the previous year	-	-	-	-	-	-	-	(12,734)	(12,734)	-	(12,734)	-
At end of period	<u>48,977</u>	<u>127,125</u>	<u>53,411</u>	<u>1,188</u>	<u>56,302</u>	<u>7,833</u>	<u>2,520</u>	<u>301,027</u>	<u>598,383</u>	<u>2,988</u>	<u>601,371</u>	<u>472,099</u>

Note:

1. Basis of presentation and principal accounting policies

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

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

The principal accounting policies used in the preparation of these condensed interim accounts are consistent with those used in the Group's annual accounts for the year ended 30th June, 2007.



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, 2007

	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	743,751	87,572	20,372	365,371		1,217,066
Inter-segment sales	10,908	16,368	2,717	4,156	(34,149)	-
	<u>754,659</u>	<u>103,940</u>	<u>23,089</u>	<u>369,527</u>		<u>1,217,066</u>
Segment results	<u>12,260</u>	<u>12,658</u>	<u>15,640</u>	<u>3,733</u>		44,291
Interest income						11,320
Unallocated corporate expenses						<u>(4,265)</u>
Profit from operations						51,346
Finance costs						(19,698)
Taxation						<u>(2,422)</u>
Net profit for the period						<u>29,226</u>

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

	Trading operation HK\$'000	Manufacturing operation HK\$'000	Consultancy operation HK\$'000	Non- agricultural resources trading operations HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover						
External sales	435,588	98,616	17,677	200,807		752,688
Inter-segment sales	18,589	12,597	2,773	117	(34,076)	-
	<u>454,177</u>	<u>111,213</u>	<u>20,450</u>	<u>200,924</u>		<u>752,688</u>
Segment results	<u>(6,400)</u>	<u>20,209</u>	<u>9,440</u>	<u>3,646</u>		26,895
Interest income						10,051
Unallocated corporate expenses						<u>(4,386)</u>
Profit from operations						32,560
Finance costs						(13,237)
Taxation						<u>(212)</u>
Net profit for the period						<u>19,111</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,	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
After charging:–		
Staff costs (including directors' emoluments)	11,493	9,975
Fair value of share-based payments in respect of share options granted to employees	–	2,386
Amortisation of intangible assets		
– System development costs	3,298	4,554
– Product development costs	1,556	1,133
– Technical know-how	8,591	8,631
Operating lease rentals of premises	1,595	1,540
Interest on bank loans and other borrowings wholly repayable within five years	19,698	12,492
Depreciation of property, plant and equipment	4,464	4,165
Amortisation of lease premium for land	150	165
(Gain)/Loss on disposal of property, plant and equipment	<u>(10)</u>	<u>78</u>
After crediting:–		
Bank and other interest income	<u>11,320</u>	<u>10,051</u>

4. Taxation

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

Taxation for the current period represented Mainland China enterprise income tax charged on certain subsidiaries which were domestic enterprises of Mainland China engaging in the trading business, at rates ranging from 18% 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 30%.

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, 2007.

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

5. Dividends

	Six months ended	
	31st December,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend of HK\$0.026 (2006:nil) per ordinary share	<u>12,734</u>	<u>–</u>

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

The Directors have resolved not to declare any interim dividend for the six months ended 31st December, 2007 (2006: nil).

6. Earnings per share

The calculations of basic earnings per share for the six months ended 31st December, 2007 is based on the unaudited consolidated profit attributable to the equity holders of the Company of approximately HK\$30,621,000 (2006: HK\$22,550,000) and the weighted average number of approximately 489,765,000 shares (2006: 430,792,000 shares) in issue during the six months ended 31st December, 2007.

The calculation of diluted earnings per share for the six months ended 31st December, 2007 was based on the unaudited consolidated profit attributable to the equity holders of the Company of approximately HK\$30,621,000 (2006: HK\$22,550,000) and the weighted average number of ordinary shares of 499,806,000 (2006: 442,602,000 shares) as adjusted for the effect of all dilutive potential shares under the Company's share options scheme and unlisted warrants. The effect of dilutive potential shares on the average number of shares in issue during the period has approximately 10,041,000 shares (2006: 11,810,000 shares), which were deemed to have been issued at no consideration as if all the outstanding options and unlisted warrants had been exercised on the date when the options and unlisted warrants were becoming exercisable.



7. Goodwill

	<i>HK\$'000</i>
Carrying value:	
At 1st July, 2007	84,580
Exchange alignment	3,638
Goodwill on acquisition	<u>6,452</u>
At 31st December, 2007	<u>94,670</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. Intangible assets

	System developments costs	Product development costs	Technical know-how	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:				
At 1st July, 2007	47,424	46,543	94,679	188,646
Exchange alignment	<u>2,040</u>	<u>2,002</u>	<u>4,072</u>	<u>8,114</u>
At 31st December, 2007	<u>49,464</u>	<u>48,545</u>	<u>98,751</u>	<u>196,760</u>
Accumulated amortisation:				
At 1st July, 2007	44,262	15,935	66,605	126,802
Charge for the period	3,298	1,556	8,591	13,445
Exchange alignment	<u>1,904</u>	<u>686</u>	<u>2,865</u>	<u>5,455</u>
At 31st December, 2007	<u>49,464</u>	<u>18,177</u>	<u>78,061</u>	<u>145,702</u>
Net book value:				
At 31st December, 2007	<u>–</u>	<u>30,368</u>	<u>20,690</u>	<u>51,058</u>
At 30th June, 2007	<u>3,162</u>	<u>30,608</u>	<u>28,074</u>	<u>61,844</u>

9. Lease premium for land

	At 31st December, 2007 <i>HK\$'000</i>	At 30th June, 2007 <i>HK\$'000</i>
Leasehold land under medium-term leases in the PRC		
Net book value at beginning of period/year	9,663	13,170
Exchange alignment	467	814
Additions	–	952
Disposals	–	(5,070)
Amortisation	(150)	(203)
	<hr/>	<hr/>
Net book value at end of period/year	9,980	9,663
Current portion of lease premium for land	(299)	(287)
	<hr/>	<hr/>
Non-current portion	<u>9,681</u>	<u>9,376</u>

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 and bills receivables (net of impairment losses for bad and doubtful debts of approximately HK\$9,359,000 (at 30th June, 2007: HK\$9,363,000)) is as follows:

	At 31st December, 2007 <i>HK\$'000</i>	At 30th June, 2007 <i>HK\$'000</i>
0 to 30 days	232,397	201,214
31 to 60 days	46,976	77,659
61 to 90 days	15,444	27,192
91 to 180 days	39,653	11,218
Over 180 days	35,867	19,865
	<hr/>	<hr/>
	<u>370,337</u>	<u>337,148</u>



11. Trade and bills payable

Aging analysis of trade and bills payable is as follows:

	At 31st December, 2007 <i>HK\$'000</i>	At 30th June, 2007 <i>HK\$'000</i>
0 to 30 days	304,385	332,043
31 to 60 days	148,367	115,324
61 to 90 days	154,184	132,328
91 to 180 days	306,778	220,997
Over 180 days	<u>72,967</u>	<u>21,089</u>
	<u>986,681</u>	<u>821,781</u>

12. Bank loans

	At 31st December, 2007 <i>HK\$'000</i>	At 30th June, 2007 <i>HK\$'000</i>
Bank loans, repayable within 1 year or on demand		
– secured	58,118	46,722
– unsecured	<u>229,323</u>	<u>240,497</u>
	<u>287,441</u>	<u>287,219</u>

The bank loans bear interest at rates ranging from approximately 5.4% to 9.5% per annum.

Bank loans of approximately HK\$43,011,000, HK\$1,075,000, HK\$7,795,000 and HK\$6,237,000 (all denominated in Renminbi) were secured by certain bank deposits, property, plant and equipment, accounts receivable as well as inventories of the Group respectively.



13. Share capital

	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 30th June, and 31st December, 2007	<u>3,000,000</u>	<u>300,000</u>
Issued and fully paid:		
At 30th June, and 31st December, 2007	<u>489,767</u>	<u>48,977</u>

14. Commitments

a. Capital and other commitments:

As at 31st December, 2007, the Group had no significant outstanding contracted capital and other commitments (at 30th June, 2007: Nil).

b. Operating lease commitments:

At 31st December, 2007, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	At 31st December, 2007 HK\$'000	At 30th June, 2007 HK\$'000
Within 1 year	1,567	1,442
After 1 year but within 5 years	1,553	1,691
After 5 years	<u>707</u>	<u>1,414</u>
	<u>3,827</u>	<u>4,547</u>

15. Comparative figures

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



BUSINESS REVIEW AND OUTLOOK

Overall Results


For the six months ended 31st December, 2007, the Group's consolidated turnover was approximately HK\$1,217,066,000 (2006: HK\$752,688,000) and net profit attributable to equity holders of the Company was approximately HK\$30,621,000 (2006: HK\$22,550,000), representing a growth of about 62% and 36% respectively as compared to those of the last financial period.

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

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

	Six months ended 31st December,		Six months ended 31st December,	
	2007	Percentage of the total turnover	2006	Percentage of the total turnover
	Turnover <i>HK\$'000</i>		Turnover <i>HK\$'000</i>	
Agricultural resources operation				
nitrogenous fertiliser	220,598	18%	162,001	21%
phosphorous fertiliser	115,618	9%	35,920	5%
potash fertiliser	92,245	8%	36,248	5%
compound fertiliser	254,434	21%	175,203	23%
pesticides	168,800	14%	142,509	19%
	<u> </u>		<u> </u>	
Agricultural resources products (subtotal)	851,695	70%	551,881	73%
Trading of non-agricultural resources products	365,371	30%	200,807	27%
	<u> </u>		<u> </u>	
Total	<u>1,217,066</u>	<u>100%</u>	<u>752,688</u>	<u>100%</u>

Aggregate sales volume of fertilisers, including nitrogenous fertiliser, phosphorous fertiliser, potash fertiliser and compound fertiliser, increased by about 33% from approximately 266,000 tonnes last period to approximately 355,000 tonnes this period. The aggregate turnover of fertilizers for this period was approximately HK\$683 million, representing a growth of 67% compared to approximately HK\$409 million last period.



For pesticides, turnover increased by 18% from approximately HK\$143 million last period to approximately HK\$169 million this period.

Turnover for trading of non-agricultural resources product increased by 82% from approximately HK\$201 million last period to approximately HK\$365 million this period.

Gross profit for the period amounted to approximately HK\$118 million and net profit attributable to shareholders of the Company was approximately HK\$30.6 million, representing a growth of approximately 45% and 36% respectively as compared to the previous period. Gross profit margin in general slightly decreased from approximately 10.8% last period to approximately 9.7% this period. The overall decrease in gross profit margin was mainly attributable to the increase in production costs of pesticides during the period. Nevertheless the gross profit of agricultural resources operation was increased from approximately HK\$65.6 million last period to approximately HK\$89.5 million this period.

Agricultural Resources Operation

(1) Nitrogenous fertiliser

Nitrogenous fertiliser is one of the principal product of the Group in terms of both sales volume and turnover. Although there was excess supply in the market due to the large production capacity of nitrogenous fertiliser in the PRC, the Group's nitrogenous fertiliser operation managed to grow continuously and its gross profit margin was maintained at approximately 3.6%. It was due to the Group's good and trusting relationship with both upstream and downstream companies developed over the years, efforts in leveraging on its capital advantage to build up strategic alliances with reputable upstream suppliers, strengthening of supply chain management, adoption of centralized purchase and distribution strategy, as well as expanding distribution network. Hence, the sales volume of nitrogenous fertiliser reached approximately 124,000 tonnes (2006: 111,000 tonnes). Turnover increased by 36% to HK\$221 million, accounted for 26% and 18% of the agricultural resources products segment and the Group's consolidated turnover respectively.

(2) Phosphorous fertiliser

Although the gradual increase in the production capacity of phosphorous fertiliser in the PRC has basically met the market demand, the supply of phosphorous is becoming scarce, the Group leveraged on the advantage of having its own phosphorous fertiliser plant and adjusted the product mix of phosphorous fertiliser by increasing the production and distribution of high density phosphorous fertiliser and decreasing that of low density phosphorous fertiliser. As a result, sales volume of phosphorous fertiliser sharply increased to approximately 85,000 tonnes (2006: 43,000 tonnes), turnover increased by 222% to HK\$116 million and the gross profit margin increased from 9.1% to 9.5%.



(3) Potash fertiliser

Being a scarce resource, over 70% of potash fertiliser in the PRC is imported. During the period, the Group leveraged on the advantages of central purchase and its own network to expand the operation of potash fertiliser, especially those from Russia. Therefore sales volume and turnover of potash fertiliser for the period greatly increased by 105% and 154% to 40,000 tonnes and HK\$92 million respectively. Gross profit margin was approximately 5.5% (2006: 5.0%).

(4) Compound fertiliser

The Group provides specific compound fertiliser for different crops through its own production or procurement. During the period, the Group adjusted the product mix of compound fertiliser products in order to counter the fierce competition in the market. Sales volume increased from approximately 93,000 tonnes last period to approximately 106,000 tonnes this period. Turnover increased by 45% to approximately HK\$254 million. Gross profit margin increased from approximately 11.8% last period to approximately 12.1% this period.

(5) Pesticides

For pesticides, the Group has a large variety of high-value-added pesticide products which are developed with different research institutes. Those pesticide products are either manufactured by the Group's own factories or purchased from suppliers and distributed in the market. Turnover for the period increased by 18% to approximately HK\$169 million. However, due to the increase in production costs of pesticides during the period, the average gross profit margin of pesticides decreased from approximately 24.1% last period to approximately 20.9% this period.

Trading of non-Agricultural Resources Products

For non-agricultural resources trading, in view of the inflation of Renminbi, Group reduced export trading to minimize foreign exchange risk while kept on increasing bulk import trading of products of resources nature and trading of coal domestically, hence turnover and gross profit increased by 82% and 82% to approximately HK\$365 million and HK\$28.5 million respectively this period. Also, due to the increased capability of logistics management in respect of distribution of coal, the Group's trading of coal increased from approximately HK\$38 million last period to approximately HK\$75 million this period, and accounted for 21% of the turnover of trading of non-agricultural resources products.

Although the inflation of Renminbi during the period resulted in decrease in gross profit margin of export trading, the effect of which was compensated by the increase in domestic trading of coal, which enjoyed a higher gross profit margin and was able to maintain the overall gross profit margin of non-agricultural resources trading operation at approximately 7.8%.



Proposed Acquisition of Two Phosphorous Mines

In November 2007, the Group entered into two separate letters of intent in relation to the possible acquisition of two separate phosphorous mines in Hubei Province of the PRC, with an aggregate preliminary estimated reserves of approximately 10 million tonnes of phosphorous rock. Upon obtaining of the mine exploitation license by the respective mining companies, the Group will further negotiate with the respective vendors for the terms of the acquisitions.

As it has been the Group's strategy to vertically expand its business, the Directors are of the view that the proposed acquisitions are expected to enable the Group to expand its business scope to the exploration and exploitation of phosphorous mine. At the same time, the proposed acquisitions will also secure the supply of raw materials for the Group's production of phosphorous fertilizers and allow room for further expansion of production.

Corporate Strategies and Prospects

In 2008, the Chinese Government will continue to reinforce its commitment and supportive policy to the rural area, farmers and the agricultural sector, thus providing a favourable external environment for the Group by creating ample room for its chemical fertiliser and pesticide products to grow.

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

LIQUIDITY AND FINANCIAL RESOURCES

Financial resources

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

As at 31st December, 2007, the aggregated cash and bank balances and restricted bank deposits of HK\$392,539,000 included HK\$17,159,000, which was denominated in Hong Kong dollars; HK\$187,000 which was denominated in US dollars and HK\$375,193,000 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, 2007, the Group had bank borrowings of HK\$287,441,000 which was denominated in Renminbi (note 12). As at 31st December, 2007, the Group had bills payable of HK\$713,789,000 which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of the Group of HK\$191,627,000 which was also denominated in Renminbi.

As at 31st December, 2007, the Group maintained a gearing ratio of approximately 48%. 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, 2007. The Directors considered that the gearing ratio as at 31st December, 2007 was healthy, taking into account of the nature and scale of operations of the Group.

Commitments

As at 31st December, 2007, the Group had no significant outstanding contracted capital commitments (note 14), as well as operating lease commitments of approximately HK\$3,827,000.

Contingent liabilities

As at 31st December, 2007, the Group had no material contingent liabilities.

Remuneration policies and share option scheme

The Group incurred total salaries and other remunerations of approximately HK\$11,493,000 with an average number of about 1,200 staff during the six months ended 31st December, 2007.

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, 2007, no options were granted to the relevant participants under the Share Option Scheme (2006: nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st December, 2007, 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		
Wu Shaoning	186,200,000	–	–	186,200,000	38.02%

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, 2007, so far as is known to the Directors, the following party (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in underlying shares of the Company

Name	Category of underlying shares	Number of ordinary shares
Wong Ting Kwong	Unlisted derivatives-cash settled	58,800,000



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, 2007 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 2007.

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	Number of Shares in respect of Options				Outstanding as at 31st December, 2007	Date of grant	Exercisable period	Exercise price per share
	Balance as at 1st July, 2007	Granted during the period	Exercised during the period	Lapsed/Cancelled during the period (Note 1)				
Employees In aggregate	800,000	-	-	-	800,000	01/12/2003	01/01/2004 - 30/12/2011	0.55
Total	<u>800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>800,000</u>			

Notes:

1. No option has been lapsed or cancelled during the six months ended 31st December, 2007.
2. Since no option was exercised during the six months ended 31st December, 2007, the weighted average closing price immediately before the exercise date (if exercised) is not applicable.



ISSUE OF UNLISTED WARRANTS

On 7th September, 2007, the Company issued to Mr. Wong Ting Kwong and Mr. Cheng Maiyue 58,800,000 and 25,200,000 warrants respectively at the issue price of HK\$0.03 per warrant pursuant to a subscription agreement dated 19th August, 2007.

The warrant holders have the right to exercise the subscription rights attaching to the warrants, in whole or in part, at the subscription price of HK\$1.00 per subscription share at any time within 2 years commencing from the date of issue of the warrants. The warrants are not listed on the Stock Exchange or any other stock exchanges. The net proceeds of approximately HK\$2,400,000 from the issue of the warrants will be used for general working capital.

No warrant was exercised during the period.

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, 2007. 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, 2007.

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, 2007, 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, 2007.

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, 2007.

On behalf of the Board
Wu Shaoning
Chairman

Hong Kong, 26th March, 2008