



China Agrotech Holdings Limited

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



Interim Report
2010/2011



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, 2010 together with the comparative figures for the corresponding period in 2009 as set out below. This interim report has been reviewed by the Company’s audit committee.

Consolidated Income Statement (unaudited)

		Six months ended 31 December,	
	<i>Notes</i>	2010 HK\$'000	2009 <i>HK\$'000</i>
Turnover	2	1,850,621	1,563,790
Cost of sales		(1,734,621)	(1,493,279)
Gross profit		116,000	70,511
Other revenue and other net income		19,775	10,635
Gain from bargain purchases on acquisition of subsidiaries		216,511	–
Distribution costs		(28,265)	(30,215)
Administrative expenses		(49,236)	(29,806)
Loss on disposal of subsidiaries		–	(3,407)
Profit from operations		274,785	17,718
Finance costs		(28,754)	(13,081)
Profit before taxation	3	246,031	4,637
Income tax	4	(4,758)	(4,112)
Profit for the period		241,273	525
Attributable to:			
– Owners of the Company		239,316	1,226
– Non-controlling interests		1,957	(701)
Profit for the period		241,273	525
Earnings per share	5		
– Basic		HK36.77 cents	HK0.22 cents
– Diluted		HK36.51 cents	HK0.22 cents



Consolidated Statement of Comprehensive Income (unaudited)

	Six months ended 31 December,	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Profit for the period	241,273	525
Other comprehensive income/(loss) for the period		
Exchange differences on translation of financial statements of overseas subsidiaries	54,134	(288)
Other comprehensive income/(loss) for the period, net of tax	54,134	(288)
Total comprehensive income for the period	295,407	237
Attributable to:		
– Owners of the Company	293,450	938
– Non-controlling interests	1,957	(701)
	295,407	237



Consolidated Statement of Financial Position

	<i>Notes</i>	At 31 December, 2010 (Unaudited) HK\$'000	At 30 June, 2010 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		131,871	109,150
Biological assets	6	1,186,850	–
Lease premiums for land	7	11,326	3,253
Intangible assets	8	72,120	21,404
Goodwill	9	84,544	81,341
Available-for-sale financial assets		26,397	26,801
Prepayments and other deposit		14,943	13,657
		1,528,051	255,606
CURRENT ASSETS			
Lease premiums for land	7	268	96
Inventories		162,340	94,131
Trade and other receivables	10	2,257,892	2,037,036
Trading securities		3,238	1,292
Restricted bank deposits		449,073	340,881
Cash and cash equivalents		251,131	95,234
		3,123,942	2,568,670
CURRENT LIABILITIES			
Trade and other payables	11	(1,900,813)	(1,316,047)
Bank loans	12	(452,690)	(539,009)
Tax payable		(52,484)	(47,995)
Convertible bonds	13	(29,800)	(896)
		(2,435,787)	(1,903,947)
Net current assets		688,155	664,723



		At 31 December, 2010 (Unaudited) HK\$'000	At 30 June, 2010 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Bank loans	12	–	(5,918)
Promissory notes		(176,403)	–
Convertible bonds	13	(568,425)	(28,963)
		(744,828)	(34,881)
NET ASSETS			
		1,471,378	885,448
CAPITAL AND RESERVES			
Share capital	14	67,277	64,277
Reserves		1,381,419	800,320
Total equity attributable to owners of the company			
		1,448,696	864,597
Non-controlling interests			
		22,682	20,851
TOTAL EQUITY			
		1,471,378	885,448



Condensed Consolidated Cash Flow Statement (unaudited)

	Six months ended 31 December,	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Net cash generated from/(used in) operating activities	387,519	(124,514)
Net cash used in investing activities	(94,457)	(87,306)
Net cash generated from/(used in) financing activities	(140,914)	275,568
	<hr/>	<hr/>
Net increase in cash and cash equivalents	152,148	63,748
Cash and cash equivalents at beginning of period	95,234	112,621
Effect of foreign exchange rate changes	3,749	–
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Cash and cash equivalents at end of period	251,131	176,369
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Consolidated Statement of Changes in Equity (unaudited)

Six months ended 31 December 2010
Attributable to owners of the Company

	Share capital	Share premium	Capital reserve	Exchange reserve	Convertible bonds equity reserve	Employee share-based compensation reserve	Contingent consideration reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity	Six months ended 31 December 2009 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	64,277	226,614	1,188	84,759	1,374	7,925	-	60,221	408,239	864,597	20,851	885,448	707,443
Profit for the period	-	-	-	-	-	-	-	-	239,316	239,316	1,957	241,273	525
Other comprehensive income: Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	54,134	-	-	-	-	-	54,134	-	54,134	(288)
Total comprehensive income for the period	-	-	-	54,134	-	-	-	-	239,316	293,450	1,957	295,407	237
Transactions with owners:													
Exercise of unlisted warrants	-	-	-	-	-	-	-	-	-	-	-	-	58,800
Issue of new shares	-	-	-	-	-	-	-	-	-	-	-	-	29,495
Issue of convertible bonds	-	-	-	-	215,657	-	-	-	-	215,657	-	215,657	1,378
Issue of share options	-	-	-	-	-	-	-	-	-	-	-	-	8,040
Issue of shares upon conversion of convertible bonds	3,000	27,039	-	-	(8,067)	-	-	-	-	21,972	-	21,972	-
Acquisition of subsidiaries	-	-	-	-	-	-	53,040	-	-	53,040	-	53,040	-
Capital injected by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	136
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	(128)	(128)	(168)
Transfer of reserves	-	-	-	-	-	-	-	1,737	(1,737)	-	-	-	-
Total transactions with owners	3,000	27,039	-	-	207,570	-	53,040	1,737	(1,737)	290,649	(128)	290,523	97,783
At end of period	67,277	263,653	1,188	138,893	208,944	7,925	53,040	61,958	645,618	1,448,696	22,892	1,471,378	805,463

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

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, 2010.

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, 2010.



2. 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.

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

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

	Trading operation	Manu- facturing operation	Consultancy operation	Non- agricultural resources trading operation	Seedling operation	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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><u>1,328,952</u></u>	<u><u>103,935</u></u>	<u><u>9,061</u></u>	<u><u>420,709</u></u>	<u><u>24,721</u></u>	<u><u>1,887,378</u></u>
Reportable segment profit before taxation	<u><u>3,811</u></u>	<u><u>8,033</u></u>	<u><u>7,873</u></u>	<u><u>7,967</u></u>	<u><u>17,666</u></u>	<u><u>45,350</u></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><u>246,031</u></u>



(ii) For the six months ended 31 December, 2009

	Trading operation	Manu- facturing operation	Consultancy operation	Non- agricultural resources trading operation	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers	1,125,897	30,251	8,061	399,581	1,563,790
Inter-segment revenue	<u>7,145</u>	<u>7,445</u>	<u>-</u>	<u>39,107</u>	<u>53,697</u>
Reportable segment revenue	<u>1,133,042</u>	<u>37,696</u>	<u>8,061</u>	<u>438,688</u>	<u>1,617,487</u>
Reportable segment profit/(loss) before taxation	<u>(6,926)</u>	<u>4,845</u>	<u>5,403</u>	<u>13,745</u>	<u>17,067</u>
Interest income	8,094	6	2	144	8,246
Finance costs	10,701	-	-	1,650	12,351
<i>Reconciliation of reportable segment profit:</i>					
Reportable segment profit					17,067
Unallocated finance cost					(730)
Unallocated corporate expenses					<u>(11,700)</u>
Consolidated profit before taxation					<u>4,637</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,	
	2010 HK\$'000	2009 HK\$'000
After charging:		
Interest on bank loans and other borrowings wholly repayable within five years	20,023	12,351
Interest on convertible bonds	6,871	730
Interest on promissory notes	1,860	–
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Total interest expense on financial liabilities not at fair value through profit or loss	28,754	13,081
Staff costs (including directors' emoluments)	14,146	9,722
Amortisation		
– Lease premiums for land	139	139
– Product development costs	2,063	2,010
– Technical know-how	1,860	2,713
Operating lease rentals of premises	7,736	1,807
Depreciation of property, plant and equipment	4,866	3,285
Employee share-based compensation expense	–	8,040
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After crediting:		
Interest income on financial assets not at fair value through profit or loss	10,150	8,246
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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.

No deferred tax liabilities 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, 2010 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

	2010 HK\$'000	2009 HK\$'000
Earnings for the purpose of basic and diluted earnings per share	<u>239,316</u>	<u>1,226</u>

(b) Weighted average number of ordinary shares

	Number of shares	
	2010 '000	2009 '000
Weighted average number of ordinary shares used in calculating basic earnings per share	650,917	560,859
Effect of dilutive potential shares arising from – share options	<u>4,566</u>	<u>–</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>655,483</u>	<u>560,859</u>

Unlisted warrants had anti-dilutive effects on the basic earnings per share for the six months ended 31 December, 2009.

Convertible bonds had anti-dilutive effects on the basic earnings per share for the six months ended 31 December, 2009 and 2010.



6. Biological assets

	At 31 December, 2010 HK\$'000	At 30 June, 2010 HK\$'000
At beginning of period/year	–	–
Additions through acquisition of subsidiaries	1,163,615	–
Additions through purchases	12,159	–
Sold during the period	(9,697)	–
Exchange alignment	20,773	–
	<hr/>	<hr/>
At end of period/year	<u>1,186,850</u>	–

7. Lease premiums for land

	At 31 December, 2010 HK\$'000	At 30 June, 2010 HK\$'000
Leasehold land under medium-term leases in the PRC		
Carrying amount at beginning of period/year	3,349	8,778
Additions through acquisition of subsidiaries	8,058	–
Amortisation	(139)	(258)
Disposal of subsidiaries	–	(5,157)
Exchange alignment	326	(14)
	<hr/>	<hr/>
Carrying amount at end of period/year	<u>11,594</u>	3,349
Analysed for reporting purpose:		
Current portion	268	96
Non-current portion	11,326	3,253
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	<u>11,594</u>	3,349



8. Intangible assets

	System developments costs <i>HK\$'000</i>	Product development costs <i>HK\$'000</i>	Technical know-how <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1 July, 2010 and 31 December, 2010	52,292	51,380	88,085	191,757
Additions through acquisition of subsidiaries	–	–	52,895	52,895
Exchange alignment	2,098	2,062	4,487	8,647
	<u>54,390</u>	<u>53,442</u>	<u>145,467</u>	<u>253,299</u>
Accumulated amortisation and impairment:				
At 1 July, 2010	52,292	30,932	87,129	170,353
Charge for the period	–	2,063	1,860	3,923
Exchange alignment	2,098	1,276	3,529	6,903
	<u>54,390</u>	<u>34,271</u>	<u>92,518</u>	<u>181,179</u>
Carrying amount:				
At 31 December, 2010	<u>–</u>	<u>19,171</u>	<u>52,949</u>	<u>72,120</u>
At 30 June, 2010	<u>–</u>	<u>20,448</u>	<u>956</u>	<u>21,404</u>



9. Goodwill

	<i>HK\$'000</i>
Cost:	
At 1 July, 2010	105,292
Exchange alignment	4,146
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At 31 December, 2010	109,438
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Accumulated amortisation and impairment:	
At 1 July, 2010	23,951
Exchange alignment	943
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At 31 December, 2010	24,894
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Carrying amount:	
At 31 December, 2010	84,544
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At 30 June, 2010	81,341
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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, 2010 HK\$'000	At 30 June, 2010 HK\$'000
0-90 days	701,127	502,827
91-180 days	67,764	82,828
181-365 days	22,070	29,754
Over 365 days	35	2,477
	790,996	617,886
Less: allowance for doubtful debts	(4,177)	(4,161)
	786,819	613,725

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 customers' requests.

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, 2010 HK\$'000	At 30 June, 2010 HK\$'000
Due within 1 month or on demand	460,075	324,959
Due after 1 month but within 2 months	377,978	196,804
Due after 2 months but within 3 months	51,545	105,939
Due after 3 months but within 6 months	655,486	496,819
Due after 6 months	24,137	14,769
	1,569,221	1,139,290



12. Bank loans

	At 31 December, 2010 HK\$'000	At 30 June, 2010 HK\$'000
Bank loans		
– secured	45,336	43,234
– unsecured	407,354	501,693
	452,690	544,927
Carrying amount repayable:		
On demand or within one year	452,690	539,009
After one year but within two years	–	5,918
	452,690	544,927
Less: Amount due within one year shown under current liabilities	(452,690)	(539,009)
Non-current liabilities	–	5,918

The bank loans bear interest at rates ranging from approximately 2.6% to 9.0% per annum.

As at 31 December, 2010, bank loans of approximately HK\$2,604,000, HK\$35,511,000 and HK\$7,221,000 (all denominated in Renminbi) were secured by certain land use rights, trade debtors of the Group, and properties of a minority shareholder 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 of the convertible bonds for the period was set out below:

	At 31 December, 2010 HK\$'000	At 30 June, 2010 HK\$'000
At beginning of period/year	29,859	–
Issued during the period/year	584,343	28,392
Interest charged	6,871	1,555
Interest paid	(896)	(2)
Conversion	(21,952)	(86)
At end of period/year	598,225	29,859
Analysed for reporting purpose:		
Current portion	29,800	896
Non-current portion	568,425	28,963
At end of period/year	598,225	29,859



14. Share capital

	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$0.10 each Authorised: At 30 June, and 31 December, 2010	3,000,000	300,000
Issued and fully paid: At 30 June, 2010	642,765	64,277
Issue of new shares upon: – conversion of convertible bonds	30,000	3,000
At 31 December, 2010	672,765	67,277

15. Commitments

a. Capital and other commitments:

As at 31 December, 2010, the Group had no significant outstanding contracted capital and other commitments.

b. Operating lease commitments:

As at 31 December, 2010, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December, 2010 HK\$'000	At 30 June, 2010 HK\$'000
Within 1 year	11,134	9,039
After 1 year but within 5 years	17,283	9,614
After 5 years	46,437	5,583
	74,854	24,236

16. 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, 2010 (2009: nil).



Business Review and Outlook

Overall Results

For the six months ended 31 December, 2010, the Group's consolidated turnover was approximately HK\$1,850,621,000 (2009: HK\$1,563,790,000) and net profit attributable to owners of the Company was approximately HK\$239,316,000 (2009: HK\$1,226,000), representing a growth of about 18% and 194 times respectively as compared to the last financial 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 seeding operation represents a newly acquired business which contributed two months' results for the reporting period.

Excluding the impact of the one-off gain from bargain purchases on acquisition of subsidiaries during the reporting period and the accrued nominal finance cost of HK\$7,894,000 on the non-interest bearing convertible bonds and promissory notes issued as consideration for the relevant acquisition, the net profit was approximately HK\$30,699,000 (2009: HK\$1,226,000), representing a substantial increase of approximately 24 times. This is mainly due to the increase in turnover and improvement of overall gross profit margin of the Group's agricultural resources operation as a result of market recovery, as well as the profit contribution from the newly acquired seedling operation.



Existing businesses – 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:

	2010		2009	
	Turnover HK\$'000	Percentage of the total turnover	Turnover HK\$'000	Percentage of the total turnover
Agricultural resources operation				
nitrogenous fertilizer	165,996	9%	153,952	10%
phosphorous fertilizer	249,493	14%	189,771	12%
potash fertilizer	372,678	20%	324,650	21%
compound fertilizer	467,241	26%	412,197	26%
pesticides	167,502	9%	83,639	5%
Agricultural resources products (subtotal)	1,422,910	78%	1,164,209	74%
Trading of non-agricultural resources products	402,990	22%	399,581	26%
Total	1,825,900	100%	1,563,790	100%

Aggregate sales volume of fertilizers, including nitrogenous fertilizer, phosphorous fertilizer, potash fertilizer and compound fertilizer, increased by about 2% from approximately 528,000 tonnes last period to approximately 539,000 tonnes this period. The aggregate turnover of fertilizers for this period was approximately HK\$1,255 million, representing a remarkable growth of about 16% compared to approximately HK\$1,081 million last period.

For pesticides, turnover sharply increased by 100% from approximately HK\$84 million last period to approximately HK\$168 million this period.

Turnover for trading of non-agricultural resources product slightly increased by 1% from approximately HK\$400 million last period to approximately HK\$403 million this period.



Aggregate gross profit and reportable segment profit before taxation from existing businesses amounted to approximately HK\$99,956,000 (2009: HK\$70,511,000) and HK\$27,684,000 (2009: HK\$17,067,000) respectively, representing an increase of approximately 42% and 62% respectively as compared to the last period. Overall gross profit margin from existing businesses increased from approximately 4.5% last period to approximately 5.5% this period, which was mainly attributable to the increase in selling prices of agricultural resources products during the period as a result of market recovery. As a result, the gross profit of agricultural resources operation increased from approximately HK\$51.0 million last period to approximately HK\$74.7 million this period, causing a substantial increase in segment profit for 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 1.7% (2009: 1.8%). Therefore, in order to better allocate the Group's working capital resources and minimize operational risks, the Group reduced the trading of nitrogenous fertilizer since the last year and therefore, the sales volume of approximately 88,000 tonnes (2009: 91,000 tonnes) accounted for only 16% of the total sales volume of fertilizers while turnover increased by 8% to HK\$166 million (2009: HK\$154 million) due to increase in selling price.

(2) Phosphorous fertilizer

During the period under review, the market demand for phosphorous fertilizers showed a moderate increase. The Group leveraged on its experience in the phosphorous fertilizer market and increased such trading while shortened the stock turnover days so as to minimize operational risk. As a result, sales volume of phosphorous fertilizer increased by 7% to approximately 162,000 tonnes (2009: 151,000 tonnes), turnover sharply increased by 31% to HK\$249 million (2009: HK\$190 million) while gross profit margin remained at approximately 3.8%.

(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, and successfully sourced a stable supply for potash fertilizer for the tobacco market. Therefore, sales volume of potash fertilizer for the period increased by 9% to 105,000 tonnes (2009: 96,000 tonnes) while turnover increased by 15% to HK\$373 million (2009: HK\$325 million). Gross profit margin was also slightly improved to approximately 4.1% (2009: 3.9%).



(4) Compound fertilizer

The Group provides specific compound fertilizer for different crops through its own production or procurement. During the period, the Group adjusted the product mix of compound fertilizer products to accommodate market demand. Sales volume slightly decreased from approximately 190,000 tonnes last period to approximately 184,000 tonnes this period while turnover increased by 13% to approximately HK\$467 million (2009: HK\$412 million). Gross profit margin slightly increased from approximately 4.5% last period to approximately 4.6% this period.

(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. As a result of the Group's increase of resources in its pesticides operation, including the acquisition of a Shandong pesticide manufacturer during the period, turnover for the period substantially increased by 100% to approximately HK\$168 million (2009: HK\$84 million). Consequently, the average gross profit margin of pesticides increased from approximately 11.8% last period to approximately 15.4% this period.

Trading of non-Agricultural Resources Products

For non-agricultural resources products, orders were increased due to gradual resumption of worldwide commodities market. Hence, turnover and gross profit increased by 1% and 29% to approximately HK\$403 million (2009: HK\$400 million) and HK\$25.3 million (2009: HK\$19.5 million) respectively this period.

Gross profit margin also increased from approximately 4.9% last period to approximately 6.3% this period due to the increase in market prices and improved profit margins of commodities and resources products during the period under review.

Newly acquired business – 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 nine seedling plantation bases in Shanxi and Beijing for the nursing, planting and sale of rare landscaping seedlings in the PRC and contributed two months' results to the Group during the reporting period. During the six months ended 31 December, 2010, Shanxi Astro-wood recorded a turnover and net profit of approximately HK\$81.6 million and HK\$47.7 million respectively (with gross profit margin of approximately 58%), of which approximately HK\$24.7 million and HK\$17.7 million respectively are included in the Group's turnover and segment profit for the reporting period upon completion of the acquisition.



Material Acquisitions

Acquisition of Present Sino Group:

On 22 June, 2010, the Company, the vendors and the warrantors entered into a sale and purchase agreement (as amended by a supplemental agreement dated 27 July, 2010) in which the Company agreed to purchase the entire interests of Present Sino Limited and its subsidiaries (“Acquisition of Present Sino Group”) at a consideration of HK\$1,000,000,000. The Acquisition of Present Sino Group was completed on 1 November, 2010 and the said consideration was satisfied (i) as to HK\$800,000,000 by the issue of the convertible bonds; and (ii) as to HK\$200,000,000 by the issue of the promissory notes. The Acquisition of Present Sino Group allows the Company to diversify its scope of agriculture business to seedling industry in the PRC, enlarge its asset base and enhance its source of income. The Acquisition of Present Sino Group constituted a very substantial acquisition and connected transaction of the Company, the details of which are set out in the Company’s circular dated 25 September, 2010.

Acquisition of Fast Base Group:

On 29 October, 2010, the Company and the vendor entered into a sale and purchase agreement in which the Company agreed to purchase the entire interests of Fast Base Holdings Limited and its subsidiaries (“Acquisition of Fast Base Group”) at a consideration of RMB70,000,000 (equivalent to approximately HK\$81,395,000). The Acquisition of Fast Base Group was completed on 2 November, 2010. The said consideration was satisfied (i) as to RMB11,520,000 (equivalent to approximately HK\$13,395,000) by cash after the completion; and (ii) as to RMB58,480,000 (equivalent to approximately HK\$68,000,000) by the allotment and issue of 68,000,000 consideration shares at the issue price of HK\$1.00 each, subject to adjustments. The allotment and issue of consideration shares will be settled in two tranches upon the finalization of the audited results of Fast Base Group for the years ending 30 June, 2011 and 2012 respectively, and be subject to adjustments, if any, based on the achievement of the guaranteed profits in accordance with the terms and conditions of the sale and purchase agreement. The Acquisition of Fast Base Group enables the Group to expand its manufacturing operation in respect of pesticides and thereby enhance its market share in the pesticides market and generate synergy effect with its existing distribution network of agricultural resources products. The Acquisition of Fast Base Group constituted a discloseable transaction of the Company, the details of which are set out in the Company’s announcement dated 29 October, 2010.



Corporate Strategies and Prospects

As the market demand and prices of various fertilizers were gradually resuming during the period under review, price trend for 2011 is optimistic in view of the global economic recovery and the strong demand for increase in foodstuff. Also, the PRC government has been continuously working on deepening the agricultural reform, increasing farmers' income and stepping up its efforts to address the "three rural (rural areas, farmers and agriculture) issues". The Central Government also takes every measure to increase the grain production, which will speed up the resumption pace of the fertilizer market in the coming years and provides a great room for the development of the industry.

In the coming year, the Group will continue to strengthen its risk management and will take a prudent approach in the hope of steering clear of adversities while grasping opportunities arising from market recovery. Besides, overcapacity has prompted a gradual consolidation in the domestic fertilizer industries. The Group also takes this opportunity to effect a restructuring of its agricultural resources operation in order to reinforce its core competitiveness in the hope of increasing its stability and sustainability.

In respect of the newly acquired seedling business, the Group is actively exploring investment opportunities in its downstream business, i.e. landscaping engineering companies, in order to strengthen the sales channel and extend the value chain of the seedling business. It is expected that the new seedling operation will bring a new growth momentum and remarkable profit contribution to the Group in the years to come.

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 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 31 December, 2010, cash and cash equivalents and restricted bank deposits of approximately HK\$700,204,000 included HK\$655,000 which was denominated in Hong Kong dollars, HK\$3,766,000 which was denominated in US dollars and HK\$695,783,000 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, 2010, the Group had bank borrowings of approximately HK\$452,690,000 (approximately HK\$425,722,000 was denominated in Renminbi and approximately HK\$26,968,000 was denominated in US dollars) bearing interest at rates ranging from approximately 2.6% to 9.0% per annum. As at 31 December, 2010, the Group had bills payable of approximately HK\$1,309 million which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of approximately HK\$449 million which was also denominated in Renminbi.

As at 31 December, 2010, the Group had convertible bonds (due in July 2011) with outstanding principal amount of HK\$33,200,000 which was denominated in Hong Kong dollars and bore interest at 3% per annum.

The Group also had convertible bonds (due in November 2015) and promissory notes (due in December 2012) with outstanding principal amount of HK\$770 million and HK\$200 million respectively, both were denominated in Hong Kong dollars and non-interest bearing.

As at 31 December, 2010, the Group maintained a gearing ratio of approximately 85%. 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, 2010. The Directors considered that the gearing ratio as at 31 December, 2010 was healthy, taking into account of the nature of the financial instruments of the Company and the nature and scale of operations of the Group.



Securities in Issue

On 1 November, 2010, the Company issued convertible bonds (“CB due 2015”) in the aggregate principal amount of HK\$800,000,000 as part of the consideration for the Acquisition of Present Sino Group as mentioned under the section headed “Material Acquisitions”. The CB due 2015 are non-interest bearing with a maturity date on the 5th anniversary of the issue date (i.e. 1 November, 2015) and entitle the holders to convert the CB due 2015 into shares of the Company at a conversion price of HK\$1.00 per share (subject to adjustments). The Company shall redeem the then outstanding CB due 2015 at its principal amount on the maturity date. The CB due 2015 in the principal amount of HK\$132,000,000 are subject to lock-up arrangements, further details of which are set out in the Company’s circular dated 25 September, 2010. During the reporting period, the CB due 2015 with an aggregate principal amount of HK\$30,000,000 was converted into 30,000,000 shares of the Company at the conversion price of HK\$1.00 each.

As at 31 December, 2010, there were 672,765,216 ordinary shares in issue and potential ordinary shares arising from (i) a total of 48,670,000 share options outstanding (comprising 400,000 share options at the exercise price of HK\$0.55 per share and 48,270,000 share options at the exercise price of HK\$0.72 per share); (ii) the 3% coupon convertible bonds due in July 2011 in an aggregate outstanding principal amount of HK\$29,880,000 at the conversion price of HK\$0.90 per share (subject to adjustments); and (iii) the CB due 2015 in an aggregate outstanding principal amount of HK\$770,000,000 at the conversion price of HK\$1.00 per share (subject to adjustments).

Commitments

As at 31 December, 2010, the Group had no significant outstanding contracted capital commitments, and the operating lease commitments was approximately HK\$74,854,000 of which approximately HK\$49.5 million is in respect of operating leases of seedling plantation bases with remaining lease terms ranging from 17 to 49 years.

Contingent liabilities

As at 31 December, 2010, 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\$14,146,000 with an average number of about 1,000 staff during the six months ended 31 December, 2010.

Remuneration packages comprised salary, mandatory provident fund and year-end bonus based on individual merits. A share option scheme (the “Scheme”) was adopted by the Company pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31 December, 2001. During the six months period ended 31 December, 2010, no share option was granted to the relevant participants under the Scheme (2009: 48,970,000 share options were granted).



Events after the Reporting Period

The Company entered into a convertible bond subscription agreement and a warrant subscription agreement (collectively, the “Subscription Agreements”) on 26 November, 2010. Upon the fulfillment of all the conditions precedent set out in the Subscription Agreements, the Company has completed the issue of RMB70 million zero coupon unsecured convertible bonds and the issue of unlisted warrants on 28 January, 2011.

Details of the Subscription Agreements and the transactions contemplated thereunder are set out in the Company’s circular dated 9 December, 2010.

Directors’ and Chief Executives’ Interests in Securities

As at 31 December, 2010, 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	Number of underlying shares held	Approximate percentage of issued share capital
Wu Shaoning	Beneficial owner	203,200,000	–	30.20%
	Beneficial owner	–	276,000,000	41.02%
			(Note)	

Note: The 276,000,000 underlying shares are in respect of the convertible bonds due 2015 (unlisted equity derivatives) of the Company in the aggregate principal amount of HK\$276,000,000 at a conversion price of HK\$1.00 per share (subject to adjustments). Upon full conversion of such convertible bonds, 276,000,000 shares of the Company would be issued to Mr. Wu Shaoning.



Save as disclosed above, as at 31 December, 2010, 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, 2010, 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

Name	Capacity	Number of shares held	Approximate percentage of issued share capital
Wu Shaoning (<i>director</i>)	Beneficial owner	203,200,000	30.20%

Long positions in underlying shares of the Company

Name	Capacity	Number of underlying shares held	Notes	Approximate percentage of issued share capital
		(<i>Note 1</i>)		
Wu Shaoning (<i>director</i>)	Beneficial owner	276,000,000		41.02%
Xue Zhixin	Beneficial owner	176,000,000		26.16%
Wong Siu Ting	Security interest in shares	100,000,000		14.86%
Liu Shufeng	Beneficial owner	50,000,000		7.43%
Quality Sino Limited	Beneficial owner	48,000,000	2	7.13%
Qiu Baoyu	Interest of controlled corporation	48,000,000	2	7.13%
Zhang Yande	Interest of controlled corporation	48,000,000	2	7.13%
Charter Basic Limited	Beneficial owner	40,000,000	3	5.95%
Wu Zhen Geng	Interest of controlled corporation	40,000,000	3	5.95%



Notes:

1. The interests in underlying shares of unlisted equity derivatives represent interests in convertible bonds due 2015 of the Company in which they are unissued shares.
2. This represents the same equity interests in the Company. Such interests are held by Quality Sino Limited which is 50% owned by Qiu Baoyu and Zhang Yande respectively.
3. This represents the same equity interests in the Company. Such interests are held by Charter Basic Limited which is wholly-owned by Wu Zhen Geng.

Save as disclosed above, as at 31 December, 2010, 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, 2010 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 2010.

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, 2010	Date of grant	Exercisable period	Exercise price per share HK\$
	Balance as at 1 July, 2010	Granted during the period	Exercised during the period	Lapsed/ Cancelled during the period (Note 1)				
Employees								
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
Total	48,670,000	-	-	-	48,670,000			

Notes:

1. No option has been lapsed or cancelled during the six months ended 31 December, 2010.
2. Since no option was exercised during the six months ended 31 December, 2010, the weighted average closing price immediately before the exercise date (if exercised) is not applicable.

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, 2010. 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, 2010.



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, 2010, 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.
3. Under code provision A.4.2 of the CG Code, any director appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Pursuant to the Company’s Articles of Association, any director appointed to fill a casual vacancy shall hold office until the next following annual general meeting. The Board is of the view that the annual general meeting held in December 2010 was close to the extraordinary general meeting held on 15 October, 2010. Hence, Mr. Wong Kin Tak who was appointed to fill the causal vacancy in March 2010 was retired and subjected to re-election at the annual general meeting held in December 2010 instead of retiring at the extraordinary general meeting held on 15 October, 2010.



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, 2010.

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, 2010.

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. Lam Ming Yung, Mr. Zhang Shaosheng and Mr. Wong Kin Tak, 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, 2011