



China Agrotech Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1073)



Interim Report
2012/2013

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, 2012 together with the comparative figures for the corresponding period in 2011 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,	
	Note	2012 HK\$'000	2011 HK\$'000
Turnover	2	2,476,468	2,220,242
Cost of sales		(2,330,048)	(2,082,593)
Gross profit		146,420	137,649
Other revenue and other net income		23,809	39,258
Gain from compensation of shortfall of guaranteed profit arising from an acquisition		150,000	120,000
(Loss)/gain from change in fair value of derivative financial liabilities		(1,312)	21,567
Loss arising from change in fair value less costs to sell of biological assets		(1,793)	(10,277)
Distribution costs		(26,046)	(34,468)
Administrative expenses		(62,879)	(54,993)
Profit from operations		228,199	218,736
Finance costs		(66,323)	(79,244)
Profit before taxation	3	161,876	139,492
Income tax	4	(209)	(5,222)
Profit for the period		161,667	134,270
Attributable to:			
— Owners of the Company		161,155	133,850
— Non-controlling interests		512	420
Profit for the period		161,667	134,270
Earnings per share	5		
— Basic		HK16.69 cents	HK16.88 cents
— Diluted		HK16.69 cents	HK16.88 cents

Consolidated Statement of Comprehensive Income (unaudited)

	Six months ended 31 December,	
	2012 HK\$'000	2011 HK\$'000
Profit for the period	161,667	134,270
Other comprehensive income for the period		
Exchange differences on translation of financial statements of subsidiaries in the PRC	42,682	50,570
Reclassification adjustment for exchange difference relating to disposal of subsidiaries in the PRC	—	187
	42,682	50,757
Income tax relating to components of other comprehensive income	—	—
Other comprehensive income for the period, net of tax	42,682	50,757
Total comprehensive income for the period	204,349	185,027
Attributable to:		
Owners of the Company	203,837	184,603
Non-controlling interests	512	424
	204,349	185,027

Consolidated Statement of Financial Position

		At 31 December, 2012 (Unaudited) HK\$'000	At 30 June, 2012 (Audited) HK\$'000
	Note		
Non-current assets			
Property, plant and equipment		128,675	136,952
Lease premiums for land	6	11,132	11,218
Biological assets	7	1,069,112	972,790
Intangible assets	8	56,445	60,010
Goodwill	9	85,476	83,941
Available-for-sale financial assets		38,600	37,917
Other deposit		14,923	14,656
		<u>1,404,363</u>	<u>1,317,484</u>
Current assets			
Lease premiums for land	6	281	276
Inventories		170,111	88,068
Trade and other receivables	10	3,357,276	3,132,773
Trading securities		3,607	3,596
Restricted bank deposits		776,989	819,815
Cash and cash equivalents		171,708	210,640
		<u>4,479,972</u>	<u>4,255,168</u>
Current liabilities			
Trade and other payables	11	(2,374,505)	(2,402,261)
Bank and other loans	12	(997,825)	(693,523)
Tax payable		(45,317)	(47,476)
Derivative financial liabilities		(12,417)	(19,665)
Promissory notes	13	-	(193,349)
		<u>(3,430,064)</u>	<u>(3,356,274)</u>
Net current assets		<u>1,049,908</u>	<u>898,894</u>
Total assets less current liabilities		<u>2,454,271</u>	<u>2,216,378</u>

		At 31 December, 2012 (Unaudited) HK\$'000	At 30 June, 2012 (Audited) HK\$'000
	Note		
Non-current liabilities			
Bank loans	12	–	(1,388)
Convertible bonds	14	(571,775)	(552,375)
Deferred tax liabilities		(12,003)	(12,492)
		<u>(583,778)</u>	<u>(566,255)</u>
NET ASSETS		<u>1,870,493</u>	<u>1,650,123</u>
CAPITAL AND RESERVES			
Share capital	15	98,777	94,777
Share premium and reserves		1,750,769	1,542,373
Total equity attributable to owners of the Company		1,849,546	1,637,150
Non-controlling interests		20,947	12,973
TOTAL EQUITY		<u>1,870,493</u>	<u>1,650,123</u>

Condensed Consolidated Cash Flow Statement (unaudited)

	Six months ended 31 December,	
	2012 HK\$'000	2011 HK\$'000
Net cash used in operating activities	(293,565)	(220,570)
Net cash (used in)/generated from investing activities	(5,298)	14,350
Net cash generated from financing activities	258,054	142,125
Net decrease in cash and cash equivalents	(40,809)	(64,095)
Cash and cash equivalents at beginning of period	210,640	178,514
Effect of foreign exchange rate changes	1,877	4,415
Cash and cash equivalents at end of period	171,708	118,834

Consolidated Statement of Changes in Equity (unaudited)

Six months ended 31 December 2012
Attributable to owners of the Company

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Convertible bond equity reserve HK\$'000	Warrant reserve HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Six months ended	
											Total equity HK\$'000	31 December 2011 Total equity HK\$'000
At beginning of period	94,777	434,391	1,188	195,820	167,943	1,800	63,221	678,010	1,637,150	12,973	1,650,123	1,421,276
Profit for the period	-	-	-	-	-	-	-	161,155	161,155	512	161,667	134,270
Other comprehensive income:												
Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	42,682	-	-	-	-	42,682	-	42,682	50,570
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	187
Total comprehensive income for the period	-	-	-	42,682	-	-	-	161,155	203,837	512	204,349	185,027
Transactions with owners:												
Issue of consideration shares	4,000	4,560	-	-	-	-	-	-	8,560	-	8,560	5,800
Issue of unlisted warrants	-	-	-	-	-	-	-	-	-	-	-	893
Issue of shares upon conversion of convertible bonds	-	-	-	-	-	-	-	-	-	-	-	31,402
Acquisition of additional interests in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(148)
Capital injection by non-controlling interests	-	-	-	(1)	-	-	-	(1)	7,462	7,461	7,461	-
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(11,059)
Transfer of reserves	-	-	-	-	-	-	1,618	(1,618)	-	-	-	-
Total transactions with owners	4,000	4,560	-	(1)	-	-	1,618	(1,618)	8,559	7,462	16,021	26,968
At end of period	98,777	438,951	1,188	238,501	167,943	1,800	64,839	837,547	1,849,546	20,947	1,870,493	1,633,271

Notes:

1. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

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

The principal accounting policies used in the preparation of these condensed interim accounts are consistent with those used in the Group's annual accounts for the year ended 30 June, 2012.

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, 2012.

2. TURNOVER AND SEGMENT INFORMATION

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

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

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

(i) For the six months ended 31 December, 2012

	Trading operation HK\$'000	Manu- facturing operation HK\$'000	Consultancy operation HK\$'000	Non- agricultural resources trading operation HK\$'000	Seedling operation HK\$'000	Group HK\$'000
Revenue from external customers	1,969,763	41,248	25,236	294,911	145,310	2,476,468
Inter-segment revenue	–	5,958	–	1,617	–	7,575
Reportable segment revenue	<u>1,969,763</u>	<u>47,206</u>	<u>25,236</u>	<u>296,528</u>	<u>145,310</u>	<u>2,848,043</u>
Reportable segment profit/(loss) before taxation	<u>12,800</u>	<u>(24,174)</u>	<u>22,985</u>	<u>(3,738)</u>	<u>35,957</u>	<u>43,830</u>
Interest income	16,192	188	5	1,677	59	18,121
Finance cost	20,983	3,310	–	7,991	7,988	40,272
<i>Reconciliation of reportable segment profit:</i>						
Reportable segment profit						43,830
Unallocated gain from compensation of shortfall of guaranteed profit arising from an acquisition						150,000
Unallocated loss from change in fair value of derivative financial liabilities						(1,312)
Unallocated finance cost						(26,051)
Unallocated corporate expenses						(4,591)
Consolidated profit before taxation						<u>161,876</u>

(ii) For the six months ended 31 December, 2011

	Trading operation HK\$'000	Manu- facturing operation HK\$'000	Consultancy operation HK\$'000	Non- agricultural resources trading operation HK\$'000	Seedling operation HK\$'000	Group HK\$'000
Revenue from external customers	1,535,919	70,472	10,107	568,426	35,318	2,220,242
Inter-segment revenue	<u>2,501</u>	<u>7,688</u>	<u>–</u>	<u>12,554</u>	<u>–</u>	<u>22,743</u>
Reportable segment revenue	<u>1,538,420</u>	<u>78,160</u>	<u>10,107</u>	<u>580,980</u>	<u>35,318</u>	<u>2,242,985</u>
Reportable segment profit/(loss) before taxation	<u>14,218</u>	<u>(5,832)</u>	<u>8,710</u>	<u>11,867</u>	<u>354</u>	<u>29,317</u>
Interest income	11,438	219	5	2,527	10	14,199
Finance cost	32,540	2,509	–	17,994	–	53,043
<i>Reconciliation of reportable segment profit:</i>						
Reportable segment profit						29,317
Unallocated gain from compensation of shortfall of guaranteed profit arising from an acquisition						120,000
Unallocated gain from change in fair value of derivative financial liabilities						21,567
Unallocated finance cost						(26,201)
Unallocated corporate expenses						<u>(5,191)</u>
Consolidated profit before taxation						<u>139,492</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,	
	2012 HK\$'000	2011 HK\$'000
After charging:		
Interest on bank loans and other borrowings wholly repayable within five years	40,272	53,043
Interest on convertible bonds	19,400	20,496
Interest on promissory notes	6,651	5,705
	<hr/>	<hr/>
Total interest expense on financial liabilities not at fair value through profit or loss	66,323	79,244
Staff costs (including directors' emoluments)	16,384	17,240
Amortisation		
— Lease premiums for land	310	181
— Product development costs	1,819	2,062
— Technical know-how	2,805	2,778
Operating lease rentals of premises	5,467	10,488
Depreciation of property, plant and equipment	7,881	7,528
	<hr/> <hr/>	<hr/> <hr/>
After crediting:		
Interest income on financial assets not at fair value through profit or loss	18,121	14,199
Gain on disposal of subsidiaries	—	11,547
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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.

Except for deferred tax liabilities recognised on acquisition of subsidiaries in respect of fair value of intangible assets identified and recognised, no deferred tax liabilities on dividend have been recognised, as the Company controls the dividend policy of its subsidiaries and it has been determined that the profits earned by the Company's certain PRC subsidiaries for the period from 1 January, 2008 to 31 December, 2012 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

	2012 HK\$'000	2011 HK\$'000
Earnings for the purpose of basic and diluted earnings per share	<u>161,155</u>	<u>133,850</u>

(b) Weighted average number of ordinary shares

	Number of shares	
	2012 '000	2011 '000
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>965,374</u>	792,961
Effect of dilutive potential shares	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>965,374</u>	<u>792,961</u>

Convertible bonds and unlisted warrants had anti-dilutive effects on the basic earnings per share for the six months ended 31 December, 2011 and 2012.

6. LEASE PREMIUMS FOR LAND

	At 31 December, 2012 HK\$'000	At 30 June, 2012 HK\$'000
Leasehold land under medium-term leases in the PRC		
Carrying amount at beginning of period/year	11,494	11,748
Amortisation	(310)	(442)
Exchange alignment	229	188
	<u>11,413</u>	<u>11,494</u>
Analysed for reporting purpose:		
Current portion	281	276
Non-current portion	11,132	11,218
	<u>11,413</u>	<u>11,494</u>

7. BIOLOGICAL ASSETS

	At 31 December, 2012 HK\$'000	At 30 June, 2012 HK\$'000
At beginning of period/year	972,790	883,536
Additions	166,242	111,719
Harvested as agricultural produce	(86,560)	(27,486)
Loss arising from change in fair value less costs to sell of biological assets	(1,793)	(7,543)
Exchange alignment	18,433	12,564
	<u>1,069,112</u>	<u>972,790</u>

As at 31 December, 2012, biological assets with a total carrying amount of approximately HK\$887,123,000 were pledged as security for a loan of approximately HK\$186,544,000.

8. INTANGIBLE ASSETS

	Product development costs HK\$'000	Technical know-how HK\$'000	Total HK\$'000
Cost:			
At 1 July, 2012	55,138	79,983	135,121
Exchange alignment	1,008	1,462	2,470
	<u>56,146</u>	<u>81,445</u>	<u>137,591</u>
At 31 December, 2012	<u>56,146</u>	<u>81,445</u>	<u>137,591</u>
Accumulated amortisation and impairment:			
At 1 July, 2012	41,425	33,686	75,111
Charge for the period	1,819	2,805	4,624
Exchange alignment	772	639	1,411
	<u>44,016</u>	<u>37,130</u>	<u>81,146</u>
At 31 December, 2012	<u>44,016</u>	<u>37,130</u>	<u>81,146</u>
Carrying amount:			
At 31 December, 2012	<u>12,130</u>	<u>44,315</u>	<u>56,445</u>
At 30 June, 2012	<u>13,713</u>	<u>46,297</u>	<u>60,010</u>

9. GOODWILL

	HK\$'000
Cost:	
At 1 July, 2012	109,609
Exchange alignment	<u>2,004</u>
At 31 December, 2012	<u>111,613</u>
Accumulated amortisation and impairment:	
At 1 July, 2012	25,668
Exchange alignment	<u>469</u>
At 31 December, 2012	<u>26,137</u>
Carrying amount:	
At 31 December, 2012	<u><u>85,476</u></u>
At 30 June, 2012	<u><u>83,941</u></u>

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

10. TRADE AND OTHER RECEIVABLES

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

	At 31 December, 2012 HK\$'000	At 30 June, 2012 HK\$'000
0-90 days	929,140	948,795
91-180 days	75,325	106,863
181-365 days	86,322	11,455
Over 365 days	6,024	12,595
	<u>1,096,811</u>	<u>1,079,708</u>
Less: allowance for doubtful debts	(12,988)	(12,867)
	<u><u>1,083,823</u></u>	<u><u>1,066,841</u></u>

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

11. TRADE AND OTHER PAYABLES

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

	At 31 December, 2012 HK\$'000	At 30 June, 2012 HK\$'000
Due within 1 month or on demand	420,927	487,358
Due after 1 month but within 2 months	219,439	382,728
Due after 2 months but within 3 months	255,996	289,806
Due after 3 months but within 6 months	1,030,832	900,073
Due after 6 months	33,798	23,386
	<u>1,960,992</u>	<u>2,083,351</u>

12. BANK AND OTHER LOANS

	At 31 December, 2012 HK\$'000	At 30 June, 2012 HK\$'000
Bank and other loans		
— secured	268,963	86,874
— unsecured	728,862	608,037
	<u>997,825</u>	<u>694,911</u>
Carrying amount repayable:		
On demand or within one year	997,825	693,523
After one year but not exceeding two years	—	362
After two years but not exceeding five years	—	1,026
	<u>997,825</u>	<u>694,911</u>
Less: Amount due within one year shown under current liabilities	<u>(997,825)</u>	<u>(693,523)</u>
Non-current liabilities	<u>—</u>	<u>1,388</u>

The bank and other loans bear interest at rates ranging from approximately 3.2% to 11% per annum.

As at 31 December, 2012, bank and other loans of approximately HK\$45,110,000, HK\$37,309,000 and HK\$186,544,000 (all denominated in Renminbi) were secured by certain land use rights and buildings, bank deposits and biological assets of the Group respectively. The unsecured bank loans were guaranteed by a director of the Company and independent third parties.

13. PROMISSORY NOTES

	At 31 December, 2012 HK\$'000	At 30 June, 2012 HK\$'000
At beginning of period/year	193,349	182,016
Interest charged	6,651	11,333
Reclassified as other payables on due date	<u>(200,000)</u>	<u>—</u>
At end of period/year	<u>—</u>	<u>193,349</u>

14. CONVERTIBLE BONDS

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

Liability component

	At 31 December, 2012 HK\$'000	At 30 June, 2012 HK\$'000
At beginning of period/year	552,375	574,867
Interest charged	19,400	39,640
Conversion	–	(31,400)
Redemption on maturity	–	(30,732)
At end of period/year	<u>571,775</u>	<u>552,375</u>
Analysed for reporting purpose:		
Current portion	–	–
Non-current portion	<u>571,775</u>	<u>552,375</u>
At end of period/year	<u>571,775</u>	<u>552,375</u>

Derivative Component

	At 31 December, 2012 HK\$'000	At 30 June, 2012 HK\$'000
At beginning of period/year	10,625	22,202
Change in fair value of derivative financial liabilities	<u>1,792</u>	<u>(11,577)</u>
At end of period/year	<u>12,417</u>	<u>10,625</u>

15. SHARE CAPITAL

	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 30 June, and 31 December, 2012	<u>3,000,000</u>	<u>300,000</u>
Issued and fully paid:		
At 30 June, 2012	94,767	94,777
Issue of consideration shares	<u>40,000</u>	<u>4,000</u>
At 31 December, 2012	<u>987,767</u>	<u>98,777</u>

16. COMMITMENTS

a. Capital and other commitments:

As at 31 December, 2012, the Group had no significant outstanding contracted capital and other commitments.

b. Operating lease commitments:

As at 31 December, 2012, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December, 2012 HK\$'000	At 30 June, 2012 HK\$'000
Within 1 year	9,455	10,809
After 1 year but within 5 years	28,789	30,971
After 5 years	<u>56,610</u>	<u>81,175</u>
	<u>94,854</u>	<u>122,955</u>

17. COMPARATIVE FIGURES

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

Interim Dividend

The Board has resolved not to declare any interim dividend for the six months ended 31 December, 2012 (2011: nil).

Business Review and Outlook

Overall Results

For the six months ended 31 December, 2012, the Group's consolidated turnover was approximately HK\$2,476,468,000 (2011: HK\$2,220,242,000) and profit attributable to owners of the Company was approximately HK\$161,155,000 (2011: HK\$133,850,000), representing a growth of about 12% and 20% respectively as compared to the last financial period. Net profit, excluding the impact of certain non-cashflow items (i.e. loss arising from change in fair value less costs to sell of biological assets, loss/gain from change in fair value of derivative financial liabilities and notional interest expense on financial liabilities) was approximately HK\$190,311,000 (2011: HK\$148,761,000), representing an increase of about 28%, which was mainly due to the record of a gain from compensation of shortfall of guaranteed profit arising from an acquisition amounted to HK\$150 million during the period as compared to HK\$120 million for the last period.

The Group's businesses can be divided into three categories, namely, (i) agricultural resources operation; (ii) trading of non-agricultural resources products; and (iii) seedling operation. Agricultural resources operation includes manufacturing and selling, purchase and distribution of agricultural resources products, as well as the provision of plant protection and consulting services for the related products. The seedling operation represents nursing, planting and sales of landscaping seedlings.

The increase in consolidated turnover of the Group was mainly due to the increase in trading of agricultural resources products as a result of gradual market resumption and increase in selling prices of fertilizers and pesticides since the last year.

The overall gross profit margin of the Group decreased from 6.2% last period to 5.9% this period due to the extent of increase in purchase costs of various products was greater than the increase in their selling prices in general.

The reportable segment profit of the Group was approximately HK\$43,830,000 (2011: HK\$29,317,000), representing an increase of about 50%. This was mainly due to the increase in operating profit of the seedling operation, which was, however, mitigated by the decrease in operating profit of both agricultural resources operation and non-agricultural resources trading operation during the period.

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

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

	Six months ended 31 December,			
	2012		2011	
	Turnover HK\$'000	Percentage of the total turnover	Turnover HK\$'000	Percentage of the total turnover
Agricultural resources operation				
nitrogenous fertilizer	197,791	8%	171,215	8%
phosphorous fertilizer	398,486	17%	274,095	13%
potash fertilizer	551,846	24%	401,653	18%
compound fertilizer	703,199	30%	511,662	23%
pesticides	184,925	8%	257,873	12%
Agricultural resources products (subtotal)	2,036,247	87%	1,616,498	74%
Trading of non-agricultural resources products	294,911	13%	568,426	26%
Total	2,331,158	100%	2,184,924	100%

Aggregate sales volume of fertilizers, including nitrogenous fertilizer, phosphorous fertilizer, potash fertilizer and compound fertilizer, increased from approximately 540,000 tonnes last period to approximately 576,000 tonnes this period. The aggregate turnover of fertilizers for this period was approximately HK\$1.851 billion, representing a growth of about 36% as compared to approximately HK\$1.359 billion last period.

For pesticides, turnover decreased by 28% from approximately HK\$258 million last period to approximately HK\$185 million this period.

Turnover for trading of non-agricultural resources product decreased by 48% from approximately HK\$568 million last period to approximately HK\$295 million this period.

Aggregate gross profit and reportable segment profit before taxation from agricultural resources operation and trading of non-agricultural resources products amounted to approximately HK\$89,662,000 (2011: HK\$119,180,000) and HK\$7,873,000 (2011: HK\$28,963,000) respectively, representing a decrease of approximately 25% and 73% respectively as compared to the last period. Overall gross profit margin from these businesses decreased from approximately 5.5% last period to 3.8% this period. Gross profit of agricultural resources operation decreased from approximately HK\$86.4 million last period to approximately HK\$79.8 million this period, while gross profit of trading of non-agricultural resources products decreased from approximately HK\$32.8 million last period to approximately HK\$9.9 million this period. Such decreases were mainly due to the shrink in gross profit margins of various products and decrease in trading of coal during the period.

Agricultural Resources Operation

(1) Nitrogenous fertilizer

Being the most commonly used fertilizer, the supply of nitrogenous fertilizers outstrips its demand, characterizing the trading environment as volume-oriented with thin gross profit margin. During the period under review, the trading profit margin was still thin and the Group recorded a gross profit margin of approximately 1.8% (2011: 1.8%). Therefore, in order to better allocate the Group's working capital resources and minimize operational risks, the Group kept lesser trading of nitrogenous fertilizer in recent years and therefore, the sales volume of approximately 85,000 tonnes (2011: 83,000 tonnes) accounted for only 15% of the total sales volume of fertilizers, while turnover increased by 16% to HK\$198 million (2011: HK\$171 million) mainly due to increase in selling price.

(2) Phosphorous fertilizer

During the period under review, the market demand for phosphorous fertilizers was comparable to that of the last period. The Group leveraged on its experience in the phosphorous fertilizer market and maintain short stock turnover days so as to minimize operational risk. As a result, sales volume of phosphorous fertilizer increased by 6% to approximately 173,000 tonnes (2011: 163,000 tonnes), while turnover increased by 45% to HK\$398 million (2011: HK\$274 million) mainly due to increase in selling price. However, gross profit margin decreased from 4.0% last period to 3.7% this period due to purchase cost increased at a greater extent than selling price.

(3) *Potash fertilizer*

During the period under review, the market demand for potash fertilizer increased as compared to that of the last period. The Group continued to leverage on the advantages of central purchase and its own network to expand the operation of potash fertilizer. As a result, sales volume of potash fertilizer for the period increased by 11% to 119,000 tonnes (2011: 107,000 tonnes) while turnover increased by 37% to HK\$552 million (2011: HK\$402 million) mainly due to increase in selling price. However, gross profit margin decreased to approximately 3.5% (2011: 4.2%) due to purchase cost increased at a greater extent than selling price.

(4) *Compound fertilizer*

The Group provides specific compound fertilizer for different crops through its own production or procurement. During the period, the Group continued to optimize the product mix of compound fertilizer products to accommodate market demand. Sales volume increased by 6% from approximately 187,000 tonnes last period to approximately 199,000 tonnes this period, while turnover increased by 37% to approximately HK\$703 million (2011: HK\$512 million) mainly due to increase in selling price. However, gross profit margin decreased from approximately 4.7% last period to approximately 3.6% this period due to purchase cost increased at a greater extent than selling price.

(5) *Pesticides*

For pesticides, the Group has a large variety of high-value-added pesticide products which are developed through collaboration with different research institutes. Those pesticide products are either manufactured by the Group's own plants or through procurement and distribution. Turnover for the period decreased by 28% to approximately HK\$185 million (2011: HK\$258 million) while average gross profit margin of pesticides decreased from approximately 12.3% last period to approximately 9.3% this period due to the increase in purchase cost of trading products and increase in production cost of self-manufactured products during the period.

Trading of Non-Agricultural Resources Products

For trading of non-agricultural resources products, the decrease in turnover was mainly due to the decrease in trading of coal during the period. As a result, turnover and gross profit decreased by 48% and 70% to approximately HK\$295 million (2011: HK\$568 million) and HK\$9.9 million (2011: HK\$32.8 million) respectively this period, while operating profit margin decreased from approximately 4.8% last period to approximately 0.9% this period due to increase in purchase cost of commodity products and shrink in gross margin, which also resulted in a segment loss of HK\$3.7 million during the period.

Seedling operation:

The Group completed the acquisition of a landscaping seedling enterprise on 1 November, 2010. The enterprise, namely, Shanxi Astro-wood, currently operates a total of six seedling plantation bases in Shanxi and Beijing for the nursing, planting and sale of rare landscaping seedlings in the PRC. The Group also developed a new seedling plantation base in Fujian province during the period. During the period, the seedling operation contributed a turnover and net profit of approximately HK\$145.3 million (2011: HK\$35.3 million) and HK\$37.8 million (2011: HK\$10.6 million) respectively to the Group (excluding the loss arising from change in fair value less costs to sell of biological assets). Such improvements were due to the success in the strategy of adjusting the seedlings product mix during the period. On the other hand, as the seedling business of Shanxi Astro-wood failed to achieve the target profit for the years ended 30 June, 2012 and 2011 as stipulated in the sale and purchase agreement for such acquisition, one of vendors, being the guarantor for the target profit, was obliged to pay the Company an amount of HK\$150 million and HK\$120 million for the respective financial years which was recorded by the Company as an unallocated other income ("Gain from compensation of shortfall of guaranteed profit arising from an acquisition") during the periods.

Corporate Strategies and Prospects

In the recently announced No. 1 Document of the Central Government of Year 2013, the PRC government continued its policy on deepening the agricultural reform, increasing farmers' income and stepping up its efforts to address the "three rural (rural areas, farmers and agriculture) issues". In particular, the No. 1 Document emphasized the speeding up of development of scaled and modernized agriculture operations and improvement of the development capability of rural areas, which provides the Group with a favorable environment for development in the coming years.

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

Looking forward, in addition to the on-going pursuit of its centralized purchase and distribution policy and optimization of product mix, the Group will actively strengthen strategic cooperation with upstream brandname suppliers to further explore quality resources and thereby increasing its stability and sustainability. As to the seedling operation, the Group will continue adjusting the seedling products mix and develop new seedling plantation bases in order to further improve the performance of the seedling operation.

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

Liquidity and Financial Resources

Financial Resources

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

As at 31 December, 2012, cash and cash equivalents and restricted bank deposits of approximately HK\$948,697,000 included HK\$639,000 which was denominated in Hong Kong dollars, HK\$16,036,000 which was denominated in US/Euro dollars and HK\$932,022,000 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, 2012, the Group had bank and other borrowings of approximately HK\$997,825,000 (approximately HK\$901,883,000 was denominated in Renminbi and approximately HK\$95,942,000 was denominated in US/Euro dollars) bearing interest at rates ranging from approximately 3.2% to 11% per annum. As at 31 December, 2012, the Group had bills payable of approximately HK\$1.824 billion which was secured by pledged bank deposits of approximately HK\$762 million.

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

As at 31 December, 2012, the Group's gearing ratio is approximately 85%. This is based on the division of the total amount of bank and others loans and convertible bonds (liability components) by total equity attributable to owners of the Company as at 31 December, 2012. The Directors, taking into account of the nature and scale of operations and capital structure of the Group, considered that the gearing ratio as at 31 December, 2012 was healthy.

Securities in Issue

On 12 October, 2012, pursuant to the sale and purchase agreement dated 29 October, 2010 in relation to the acquisition of the entire interests of Fast Base Holdings Limited and its subsidiaries, 40,000,000 consideration shares were issued by the Company.

As at 31 December, 2012, there were 987,765,216 ordinary shares in issue and potential ordinary shares arising from (i) the convertible bonds (due in November 2015) in an aggregate outstanding principal amount of HK\$623,000,000 at the conversion price of HK\$1.00 per share (subject to adjustments); (ii) the convertible bonds (due in January 2016) in an aggregate outstanding accreted principal amount of approximately HK\$91,379,000 (being original principal of HK\$81,680,000 plus accrued interest of HK\$9,699,000) at the reset conversion price of HK\$0.70 per share (subject to adjustments); and (iii) unlisted warrants (to be expired in January 2016) conferring rights to subscribe for 60,000,000 shares at the subscription price of HK\$1.20 per share.

Save as disclosed above, there was no movement in the issued share capital of the Company during the six months ended 31 December, 2012.

Commitments

As at 31 December, 2012, the Group had no significant outstanding contracted capital commitments, and the operating lease commitments was approximately HK\$94.9 million of which approximately HK\$47.4 million is in respect of operating leases of seedling plantation bases with remaining lease terms ranging from 9 to 47 years.

Contingent Liabilities

As at 31 December, 2012, the Group had no material contingent liabilities.

Remuneration Policies

The Group incurred total salaries and other remunerations (excluding employee share-based compensation expense) of approximately HK\$16.4 million with an average number of about 1,000 staff during the six months ended 31 December, 2012.

Remuneration packages comprised salary, mandatory provident fund and year-end bonus based on individual merits.

Directors' and Chief Executives' Interests in Securities

As at 31 December, 2012, 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	231,834,000	–	23.47%
	Beneficial owner	–	256,000,000	25.92%
			(Note)	

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

Save as disclosed above, as at 31 December, 2012, none of the Directors and chief executives of the Company 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 31 December, 2012, 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	231,834,000	23.47%

Long positions in underlying shares of the Company

Name	Capacity	Number of underlying shares held	Notes	Approximate percentage of issued share capital
Wu Shaoning (<i>director</i>)	Beneficial owner	256,000,000	1	25.92%
Xue Zhixin	Beneficial owner	226,000,000	1	22.88%
Concept Capital Management Limited	Beneficial owner	190,540,773	2	19.29%

Notes:

1. The interests in underlying shares of unlisted equity derivatives represent interests in convertible bonds (due in November 2015) of the Company in which they are unissued shares.
2. The interests in underlying shares of unlisted equity derivatives comprise interests in convertible bonds (due in January 2016) of the Company in which they are unissued shares as to 130,540,773 shares, and interests in unlisted warrants (to be expired in January 2016) conferring rights to subscribe for 60,000,000 shares of the Company.

Save as disclosed above, as at 31 December, 2012, 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, 2012 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 2012. After the expiry of the Share Option Scheme on 30 December, 2011 by effluxion of time, there is no existing share option scheme for the Company.

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, 2012. 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, 2012.

Corporate Governance Code

The Company has complied with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 31 December, 2012, 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.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to other essential business engagements, Mr. Zhang Shaosheng, being an independent non-executive director of the Company, did not attend the annual general meeting of the Company held on 7 December, 2012.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. 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, 2012.

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, 2012.

Board of Directors

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

On behalf of the Board

China Agrotech Holdings Limited

Wu Shaoning

Chairman

Hong Kong, 28 February, 2013