



China Agrotech Holdings Limited

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



**CHINA AGROTECH
HOLDINGS LIMITED**

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, 2013 together with the comparative figures for the corresponding period in 2012 as set out below. This interim report has been reviewed by the Company's audit committee.

Consolidated Income Statement (Unaudited)

	Note	Six months ended 31 December,	
		2013 HK\$'000	2012 HK\$'000
Turnover	2	2,593,701	2,476,468
Cost of sales		(2,467,915)	(2,330,048)
Gross profit		125,786	146,420
Other revenue and other net income		25,494	23,809
Gain from compensation of shortfall of guaranteed profit arising from an acquisition		—	150,000
Gain/(loss) from change in fair value of derivative financial liabilities		5,014	(1,312)
Gain/(loss) arising from change in fair value less costs to sell of biological assets		1,294	(1,793)
Distribution costs		(30,159)	(26,046)
Administrative expenses		(50,890)	(62,879)
Profit from operations		76,539	228,199
Finance costs		(61,778)	(66,323)
Profit before taxation	3	14,761	161,876
Income tax	4	(3,871)	(209)
Profit for the period		10,890	161,667
Attributable to:			
— Owners of the Company		10,515	161,155
— Non-controlling interests		375	512
Profit for the period		10,890	161,667
Earnings per share	5		
— Basic		HK1.06 cents	HK16.69 cents
— Diluted		HK1.06 cents	HK16.69 cents



Consolidated Statement of Comprehensive Income (Unaudited)

	Six months ended 31 December,	
	2013 HK\$'000	2012 HK\$'000
Profit for the period	10,890	161,667
Other comprehensive income for the period		
Exchange differences on translation of financial statements of subsidiaries in the PRC	30,511	42,682
Income tax relating to components of other comprehensive income	—	—
Other comprehensive income for the period, net of tax	30,511	42,682
Total comprehensive income for the period	41,401	204,349
Attributable to:		
Owners of the Company	40,786	203,837
Non-controlling interests	615	512
	41,401	204,349

Consolidated Statement of Financial Position

	Note	At 31 December, 2013 (Unaudited) HK\$'000	At 30 June, 2013 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		155,230	127,506
Lease premiums for land	6	11,111	11,190
Biological assets	7	1,101,185	1,043,773
Intangible assets	8	48,457	52,606
Goodwill	9	87,903	86,837
Available-for-sale financial assets		29,020	39,207
		<u>1,432,906</u>	<u>1,361,119</u>
Current assets			
Lease premiums for land	6	289	286
Inventories		146,416	87,210
Trade and other receivables	10	3,931,904	3,298,159
Trading securities		3,722	3,677
Restricted bank deposits		765,672	828,038
Cash and cash equivalents		164,995	98,037
		<u>5,012,998</u>	<u>4,315,407</u>
Current liabilities			
Trade and other payables	11	(2,781,226)	(2,125,790)
Bank and other loans	12	(1,065,758)	(1,007,524)
Tax payable		(36,113)	(32,491)
Derivative financial liabilities		–	(5,014)
Convertible bonds	13	(61,977)	–
		<u>(3,945,074)</u>	<u>(3,170,819)</u>
Net current assets		<u>1,067,924</u>	<u>1,144,588</u>
Total assets less current liabilities		<u>2,500,830</u>	<u>2,505,707</u>



		At 31 December, 2013 (Unaudited) HK\$'000	At 30 June, 2013 (Audited) HK\$'000
	Note		
Non-current liabilities			
Bank loans	12	–	(1,033)
Convertible bonds	13	(536,087)	(585,811)
Deferred tax liabilities		(10,869)	(11,466)
		<u>(546,956)</u>	<u>(598,310)</u>
NET ASSETS		<u>1,953,874</u>	<u>1,907,397</u>
CAPITAL AND RESERVES			
Share capital	14	100,177	99,377
Share premium and reserves		1,832,939	1,785,913
Total equity attributable to owners of the Company		1,933,116	1,885,290
Non-controlling interests		20,758	22,107
TOTAL EQUITY		<u>1,953,874</u>	<u>1,907,397</u>

Condensed Consolidated Cash Flow Statement (unaudited)

	Six months ended 31 December,	
	2013 HK\$'000	2012 HK\$'000
Net cash generated from/(used in) operating activities	40,703	(293,565)
Net cash generated from/(used in) investing activities	21,442	(5,298)
Net cash generated from financing activities	<u>2,325</u>	<u>258,054</u>
Net increase/(decrease) in cash and cash equivalents	64,470	(40,809)
Cash and cash equivalents at beginning of period	98,037	210,640
Effect of foreign exchange rate changes	<u>2,488</u>	<u>1,877</u>
Cash and cash equivalents at end of period	<u><u>164,995</u></u>	<u><u>171,708</u></u>



Consolidated Statement of Changes in Equity (unaudited)

Six months ended 31 December 2013
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	Total equity HK\$'000	Six months ended 31 December 2012 Total equity HK\$'000
At beginning of period	99,377	444,968	1,188	276,067	166,326	1,800	64,839	830,725	1,885,290	22,107	1,907,397	1,650,123
Profit for the period	-	-	-	-	-	-	-	10,515	10,515	375	10,890	161,667
Other comprehensive income: Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	30,270	-	-	-	-	30,270	240	30,510	42,682
Total comprehensive income for the period	-	-	-	30,270	-	-	-	10,515	40,785	615	41,400	204,349
Transactions with owners:												
Issue of consideration shares	-	-	-	-	-	-	-	-	-	-	-	8,560
Issue of shares upon conversion of convertible bonds	800	8,398	-	-	(2,157)	-	-	-	7,041	-	7,041	-
Capital injection by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	7,461
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	(1,964)	(1,964)	-
Transfer of reserves	-	-	-	-	-	-	15,447	(15,447)	-	-	-	-
Total transactions with owners	800	8,398	-	-	(2,157)	-	15,447	(15,447)	7,041	(1,964)	5,077	16,021
At end of period	100,177	453,366	1,188	306,337	164,169	1,800	80,286	825,793	1,933,116	20,758	1,953,874	1,870,493

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, 2013.

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, 2013.

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, 2013

	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	2,075,016	42,393	12,107	395,360	68,825	2,593,701
Inter-segment revenue	-	-	-	-	-	-
Reportable segment revenue	<u>2,075,016</u>	<u>42,393</u>	<u>12,107</u>	<u>395,360</u>	<u>68,825</u>	<u>2,593,701</u>
Reportable segment profit/(loss) before taxation	<u>18,867</u>	<u>(22,413)</u>	<u>11,050</u>	<u>4,583</u>	<u>21,466</u>	<u>33,553</u>
Interest income	16,067	131	1	755	5	16,959
Finance cost	22,092	1,555	-	6,549	12,288	42,484
<i>Reconciliation of reportable segment profit:</i>						
Reportable segment profit						33,553
Unallocated gain from change in fair value of derivative financial liabilities						5,014
Unallocated finance cost						(19,294)
Unallocated corporate expenses						(4,512)
Consolidated profit before taxation						<u>14,761</u>

(ii) 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>

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,	
	2013 HK\$'000	2012 HK\$'000
After charging:		
Interest on bank loans and other borrowings wholly repayable within five years	42,484	40,272
Interest on convertible bonds	19,294	19,400
Interest on promissory notes	—	6,651
Total interest expense on financial liabilities not at fair value through profit or loss	61,778	66,323
Staff costs (including directors' emoluments)	17,901	16,384
Amortisation		
— lease premiums for land	229	310
— intangible assets	4,762	4,624
Operating lease rentals of premises	6,591	5,467
Depreciation of property, plant and equipment	7,684	7,881
After crediting:		
Interest income on financial assets not at fair value through profit or loss	16,959	18,121

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.

The PRC enterprise income tax has been provided at the rate of 25% (2012: 25%).

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 PRC subsidiaries for the period from 1 January, 2008 to 31 December, 2013 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

	2013 HK\$'000	2012 HK\$'000
Earnings for the purpose of basic and diluted earnings per share	<u>10,515</u>	<u>161,155</u>

(b) Weighted average number of ordinary shares

	Number of shares	
	2013 '000	2012 '000
Weighted average number of ordinary shares used in calculating basic earnings per share	994,407	965,374
Effect of dilutive potential shares	—	—
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>994,407</u>	<u>965,374</u>

Convertible bonds and unlisted warrants had anti-dilutive effects on the basic earnings per share for the six months ended 31 December, 2012 and 2013.



6. LEASE PREMIUMS FOR LAND

	At 31 December, 2013 HK\$'000	At 30 June, 2013 HK\$'000
Leasehold land under medium-term leases in the PRC		
Carrying amount at beginning of period/year	11,476	11,494
Amortisation	(229)	(449)
Exchange alignment	153	431
Carrying amount at end of period/year	<u>11,400</u>	<u>11,476</u>
Analysed for reporting purpose:		
Current portion	289	286
Non-current portion	11,111	11,190
	<u>11,400</u>	<u>11,476</u>

7. BIOLOGICAL ASSETS

	At 31 December, 2013 HK\$'000	At 30 June, 2013 HK\$'000
At beginning of period/year	1,043,773	972,790
Additions	72,642	179,585
Harvested as agricultural produce	(29,645)	(129,094)
Loss arising from change in fair value less costs to sell of biological assets	1,294	(13,633)
Exchange alignment	13,121	34,125
At end of period/year	<u>1,101,185</u>	<u>1,043,773</u>

As at 31 December, 2013, biological assets with a total carrying amount of approximately HK\$915,712,000 were pledged as security for a loan of approximately HK\$127,894,000.

8. INTANGIBLE ASSETS

	Product development costs HK\$'000	Technical know-how HK\$'000	Total HK\$'000
Cost:			
At 1 July, 2013	57,040	82,742	139,782
Exchange alignment	700	1,016	1,716
	<u>57,740</u>	<u>83,758</u>	<u>141,498</u>
At 31 December, 2013	<u>57,740</u>	<u>83,758</u>	<u>141,498</u>
Accumulated amortisation and impairment:			
At 1 July, 2013	46,581	40,595	87,176
Charge for the period	1,873	2,889	4,762
Exchange alignment	585	518	1,103
	<u>49,039</u>	<u>44,002</u>	<u>93,041</u>
At 31 December, 2013	<u>49,039</u>	<u>44,002</u>	<u>93,041</u>
Carrying amount:			
At 31 December, 2013	<u>8,701</u>	<u>39,756</u>	<u>48,457</u>
At 30 June, 2013	<u>10,459</u>	<u>42,147</u>	<u>52,606</u>



9. GOODWILL

	HK\$'000
Cost:	
At 1 July, 2013	113,390
Exchange alignment	<u>1,392</u>
At 31 December, 2013	<u>114,782</u>
Accumulated amortisation and impairment:	
At 1 July, 2013	26,553
Exchange alignment	<u>326</u>
At 31 December, 2013	<u>26,879</u>
Carrying amount:	
At 31 December, 2013	<u><u>87,903</u></u>
At 30 June, 2013	<u><u>86,837</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, 2013 HK\$'000	At 30 June, 2013 HK\$'000
0-90 days	1,197,180	933,824
91-180 days	288,939	130,126
181-365 days	60,543	35,964
Over 365 days	31,655	30,231
	<u>1,578,317</u>	<u>1,130,145</u>
Less: allowance for doubtful debts	(33,057)	(33,057)
	<u><u>1,545,260</u></u>	<u><u>1,097,088</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, 2013 HK\$'000	At 30 June, 2013 HK\$'000
0-30 days	684,940	367,670
31-60 days	236,036	245,761
61-90 days	179,884	185,333
91-180 days	1,142,129	985,830
Over 180 days	29,908	38,371
	<u>2,272,897</u>	<u>1,822,965</u>



12. BANK AND OTHER LOANS

	At 31 December, 2013 HK\$'000	At 30 June, 2013 HK\$'000
Bank and other loans		
— secured	369,791	445,333
— unsecured	695,967	563,224
	<u>1,065,758</u>	<u>1,008,557</u>
Carrying amount repayable:		
On demand or within one year	1,065,758	1,007,524
After one year but not exceeding two years	—	374
After two years but not exceeding five years	—	659
	<u>1,065,758</u>	<u>1,008,557</u>
Less: Amount due within one year shown under current liabilities	<u>(1,065,758)</u>	<u>(1,007,524)</u>
Non-current liabilities	<u>—</u>	<u>1,033</u>

The bank and other loans bear interest at rates ranging from approximately 2.7% to 11.8% per annum.

As at 31 December, 2013, bank and other loans of approximately HK\$54,994,000, HK\$186,903,000 and HK\$127,894,000 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. CONVERTIBLE BONDS

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

Liability component

	At 31 December, 2013 HK\$'000	At 30 June, 2013 HK\$'000
At beginning of period/year	585,811	552,375
Interest charged	19,294	38,436
Conversion	(7,041)	(5,000)
At end of period/year	<u>598,064</u>	<u>585,811</u>
Analysed for reporting purpose:		
Current portion	61,977	–
Non-current portion	536,087	585,811
At end of period/year	<u>598,064</u>	<u>585,811</u>

Derivative Component

	At 31 December, 2013 HK\$'000	At 30 June, 2013 HK\$'000
At beginning of period/year	5,014	10,625
Change in fair value of derivative financial liabilities	(5,014)	(5,611)
At end of period/year	<u>–</u>	<u>5,014</u>



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, 2013	<u>3,000,000</u>	<u>300,000</u>
Issued and fully paid:		
At 30 June, 2013	993,767	99,377
Issue of consideration shares	<u>8,000</u>	<u>800</u>
At 31 December, 2013	<u>1,001,767</u>	<u>100,177</u>

15. COMMITMENTS

a. Capital and other commitments:

As at 31 December, 2013, the Group had no significant outstanding contracted capital and other commitments.

b. Operating lease commitments:

As at 31 December, 2013, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December, 2013 HK\$'000	At 30 June, 2013 HK\$'000
Within 1 year	11,333	11,699
After 1 year but within 5 years	36,669	34,365
After 5 years	<u>55,715</u>	<u>57,855</u>
	<u>103,717</u>	<u>103,919</u>

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 recommend the payment of any interim dividend for the six months ended 31 December, 2013 (2012: nil).

Business Review and Outlook

Overall Results

For the six months ended 31 December, 2013, the Group's consolidated turnover was approximately HK\$2,593,701,000 (2012: HK\$2,476,468,000) and profit attributable to owners of the Company was approximately HK\$10,515,000 (2012: HK\$161,155,000), representing an increase of about 5% and a decrease of about 93% respectively as compared to the last financial period. The significant decrease in profit attributable to owners of the Company was mainly due to that there was a record of a gain from compensation of shortfall of guaranteed profit arising from an acquisition, amounted to HK\$150,000,000 during the six month period ended 31 December, 2012 while there was no such gain during the six month period ended 31 December, 2013 upon expiry of the relevant profit guarantee period.

Excluding the impact of certain non-cashflow items (i.e. gain/loss arising from change in fair value less costs to sell of biological assets, gain/loss from change in fair value of derivative financial liabilities, and notional interest expense on financial liabilities) and the non-recurring item of the last period of gain from compensation of shortfall of guaranteed profit arising from an acquisition, net profit was approximately HK\$23,501,000 (2012: HK\$40,311,000), representing a decrease of about 42%. This was mainly due to the decrease in segment profit of the seedling operation as a result of corresponding decrease in sale of small seedlings of whitebark pines (a major seedling species) during the period after promotional sales of such category of whitebark pines during the last period upon implementation of the strategy of adjusting the seedlings product mix.

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 sale of agricultural resources products, though at lower gross profit margins, in order to maintain the Group's competitiveness in the market, and the increase in trading of non-agricultural resources products, such as coal and timber, during the period.



The overall gross profit margin of the Group decreased from 5.9% last period to 4.9% this period. This was mainly due to the decrease in sale of seedling products, which have relatively higher profit margins, during the period.

The aggregate reportable segment profit of the Group was approximately HK\$33,553,000 (2012: HK\$43,830,000), representing a decrease of about 23%. This was mainly due to the decrease in operating profit of the seedling operation and the agricultural resources operation, though mitigated by the turnaround of the non-agricultural resources trading operation during the period.

Agricultural resources operation:

The turnover of the agricultural resources operation is analysed by product segments as follows:

	Six months ended 31 December,			
	2013		2012	
	Turnover HK\$'000	Percentage of the total turnover	Turnover HK\$'000	Percentage of the total turnover
Agricultural resources operation				
nitrogenous fertilizer	215,163	10%	197,791	10%
phosphorous fertilizer	359,653	17%	398,486	20%
potash fertilizer	479,562	22%	551,846	27%
compound fertilizer	969,545	46%	703,199	34%
pesticides	105,593	5%	184,925	9%
Total	<u>2,129,516</u>	<u>100%</u>	<u>2,036,247</u>	<u>100%</u>

Aggregate sales volume of fertilizers, including nitrogenous fertilizer, phosphorous fertilizer, potash fertilizer and compound fertilizer, increased from approximately 576,000 tonnes last period to approximately 612,000 tonnes this period. The aggregate turnover of fertilizers for this period was approximately HK\$2.024 billion, representing a growth of about 9% as compared to approximately HK\$1.851 billion last period. Gross profit margin of fertilizers decreased from an average of 3.4% last period to 3.2% this period.

For pesticides, due to decrease in market demand and shrink in profit margin, turnover decreased by 43% from approximately HK\$185 million last period to approximately HK\$106 million this period. Gross profit margin of pesticides decreased from an average of 9.3% last period to 9.0% this period due to the increase in purchase cost during the period.

Gross profit of agricultural resources operation amounted to approximately HK\$74.9 million (2012: HK\$79.8 million), representing a decrease of approximately 6% as compared to the last period. Overall gross profit margin of agricultural resources operation decreased from approximately 3.9% last period to 3.5% this period, which was mainly due to the general shrink in profit margins of the products during the period. Gross profit of fertilizers increased from approximately HK\$62.6 million last period to approximately HK\$65.4 million this period, while gross profit of pesticides decreased from approximately HK\$17.2 million last period to approximately HK\$9.5 million this period. As a result, segment profit of agricultural resources operation decreased from approximately HK\$11.6 million last period to approximately HK\$7.5 million this period.

Trading of Non-Agricultural Resources Products:

For trading of non-agricultural resources products, the increase in turnover was mainly due to the increase in trading of coal and timber during the period. As a result, turnover and gross profit increased by 34% and 51% to approximately HK\$395 million (2012: HK\$295 million) and HK\$15.0 million (2012: HK\$9.9 million) respectively this period, while operating profit margin increased from approximately 0.9% last period to approximately 2.6% this period due to general increase in gross margin of various products, which also resulted in the record of a segment profit of HK\$4.6 million this period as compared to a segment loss of HK\$3.7 million last period.

Seedling operation:

The Group completed the acquisition of a landscaping seedling enterprise in 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 in the last year. During the period, the seedling operation contributed a turnover and net profit of approximately HK\$68.8 million (2012: HK\$145.3 million) and HK\$20.2 million (2012: HK\$37.8 million) respectively to the Group (excluding the gain/loss arising from change in fair value less costs to sell of biological assets). Such decreases were mainly due to the corresponding decrease in sale of small seedlings of whitebark pines during the period after promotional sales of such category of whitebark pines during the last period upon implementation of the strategy of adjusting the seedlings product mix.



On the other hand, the seedling business of Shanxi Astro-wood recorded net losses for the years ended 30 June, 2012 and 2011 (the "Profit Guarantee Periods"). Hence, according to the sale and purchase agreement for such acquisition, one of vendors, being the guarantor for the target profit of Shanxi Astro-wood, 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 six months ended 31 December, 2012 and 2011 respectively. Upon expiry of the Profit Guarantee Periods, no such compensation gain was recorded during the six months ended 31 December, 2013.

Corporate Strategies and Prospects

In the recently announced No. 1 Document of the Central Government of Year 2014, 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 enhancement of the protection system of food safety and grain supply, the strengthening and speeding up of development of scaled and modernized agriculture operations, as well as improvement of the ecological development of agriculture, 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 the gradual cutting of economic stimulation measures of the United States, as well as the existing tightening lending policies of the PRC banking industry, the Group will continue to strengthen its risk management and will take a prudent approach in the hope of steering clear of adversities in the coming year. The Group will also closely review its business model in order to reinforce its core competitiveness by consolidating existing businesses while setting new development direction.

Looking forward, in addition to the on-going pursuit of its centralized purchase and distribution policy and optimization of product mix in respect of its agricultural resources operation, 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 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, 2013, cash and cash equivalents and restricted bank deposits of approximately HK\$930,667,000 included HK\$24,741,000 which was denominated in Hong Kong/US/Euro dollars and HK\$905,926,000 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, 2013, the Group had bank and other borrowings of approximately HK\$1,065,758,000 (approximately HK\$942,930,000 was denominated in Renminbi and approximately HK\$122,828,000 was denominated in US/Euro dollars) bearing interest at rates ranging from approximately 2.7% to 11.8% per annum. As at 31 December, 2013, the Group had bills payable of approximately HK\$1.836 billion which was secured by pledged bank deposits of approximately HK\$688 million.

As at 31 December, 2013, the Group had (i) convertible bonds (due in November 2015) with outstanding principal amount of HK\$609 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, 2013, the Group's gearing ratio is approximately 86%. 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, 2013. 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, 2013 was reasonable.

Securities in Issue

During the period, the convertible bonds (due in November 2015) with an aggregate principal amount of HK\$8,000,000 were converted into 8,000,000 shares of the Company at the conversion price of HK\$1.00 each.

As at 31 December, 2013, there were 1,001,765,216 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\$609,000,000 at the conversion price of HK\$1.00 per share (subject to adjustments); (ii) the convertible bonds (originally due in January 2016, but was requested by the bondholder for early redemption in January 2014. Upon compromise with the Company, the redemption is extended to April 2014.) in an aggregate outstanding accreted principal amount of approximately HK\$96,860,000 (being original principal of HK\$81,680,000 plus accrued interest of HK\$15,180,000) 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, 2013.

Commitments

As at 31 December, 2013, the Group had no significant outstanding contracted capital commitments.

Contingent Liabilities

As at 31 December, 2013, the Group had no material contingent liabilities.

Remuneration Policies

The Group incurred total salaries and other remunerations of approximately HK\$17.9 million with an average number of about 1,000 staff during the six months ended 31 December, 2013.

Remuneration packages comprise salary, mandatory provident fund and year-end bonus based on individual merits. A new 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 19 June, 2013. During the six months ended 31 December, 2013, no share option was granted to the relevant participants under the Scheme.

Events after the Reporting Period

1. On 18 June, 2013, China Ecotech Limited, an indirect wholly-owned subsidiary of the Company, as the Purchaser and the vendors entered into an equity transfer agreement (the "Agreement") in relation to the acquisition of 32% equity interest (the "Sale Equity Interest") of Guangdong Jiuhua Potatoes Industry Company Limited ("Guangdong Jiuhua"). Pursuant to the Agreement, China Ecotech Limited agreed to acquire from the vendors the Sale Equity Interest at a cash consideration of RMB25 million. Upon completion, the Group will be interested in the Sale Equity Interest, representing 32% of the equity interest of Guangdong Jiuhua which will be treated as a joint venture and accounted for using equity method by the Group. Guangdong Jiuhua and its subsidiaries are principally engaged in the propagation and sale of seed potatoes and trading of fresh potatoes in the PRC.

The entering into the Agreement constituted a discloseable transaction of the Company under the Listing Rules. Details of the Agreement and the transactions contemplated thereunder is set out in the announcement of the Company dated 18 June, 2013. Subsequently, upon the entering into of two supplemental agreements for the extension of the completion of the acquisition, the Agreement and the transactions contemplated thereunder are expected to be completed by end of July 2014.

2. The Company and a subscriber entered into a warrant subscription agreement (the "Warrant Subscription Agreement") on 27 January, 2014, for the issue of unlisted warrants which entitled the holders of the warrants to subscribe for 50,000,000 shares of the Company at the initial subscription price of HK\$0.45 per share. Upon the fulfillment of all the conditions precedent set out in the Warrant Subscription Agreement, the Company has completed the issue of the unlisted warrants on 6 February, 2014.

Details of the Warrant Subscription Agreement and the transactions contemplated thereunder are set out in the Company's announcement dated 27 January, 2014.



Directors' and Chief Executives' Interests in Securities

As at 31 December, 2013, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Listing Rules were as follows:

Long positions in shares and underlying shares of the Company

Name of director	Capacity	Number of shares held	Approximate	
			Number of underlying shares held	percentage of issued share capital
Wu Shaoning	Beneficial owner	231,834,000	–	23.14%
	Beneficial owner	–	256,000,000	25.55%
			(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. On 27 January, 2014, the convertible bonds (due in November 2015) in the aggregate principal amount of HK\$256,000,000 held by Mr. Wu Shaoning had been pledged in favour of Concept Capital Management Limited ("CCM") as security for the repayment of the early redemption amount of the convertible bonds (originally due in January 2016) held by CCM.

Save as disclosed above, as at 31 December, 2013, 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 were recorded in the register required to be kept by the Company under Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests in Securities

As at 31 December, 2013, 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	23.14%

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, 3	25.55%
Xue Zhixin	Beneficial owner	226,000,000	1	22.56%
Concept Capital Management Limited (<i>Note 3</i>)	Beneficial owner	198,371,570	2	19.80%

Notes:

- 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.
- The interests in underlying shares of unlisted equity derivatives comprise interests in convertible bonds (originally due in January 2016, but will be early redeemed in April 2014) of the Company in which they are unissued shares as to 138,371,570 shares, and interests in unlisted warrants (to be expired in January 2016) conferring rights to subscribe for 60,000,000 shares of the Company.
- On 27 January, 2014, the convertible bonds (due in November 2015) in the aggregate principal amount of HK\$256,000,000 (comprising 256,000,000 underlying shares upon conversion) held by Mr. Wu Shaoning had been pledged in favour of Concept Capital Management Limited ("CCM") as security for the repayment of the early redemption amount of the convertible bonds (originally due in January 2016) held by CCM.



Save as disclosed above, as at 31 December, 2013, 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, 2013 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 19 June, 2013, the Company adopted a new share option scheme (the "New Scheme"), the principal terms of which are set out in the Company's Annual Report 2013. During the six months ended 31 December, 2013, no share option was granted to the relevant participants under the New Scheme.

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, 2013. 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, 2013.

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, 2013, 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 6 December, 2013.

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, 2013.

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, 2013.



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, 2014