

PINE AGRITECH LIMITED

Second Quarter Financial Statement and Dividend Announcement for the Period Ended 30 June 2006

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group			Group		
	Three months ended 30.6.2006 (Unaudited) RMB'000	Three months ended 30.6.2005 (Unaudited) RMB'000	% change + / (-)	Six months ended 30.6.2006 (Unaudited) RMB'000	Six months ended 30.6.2005 (Unaudited) RMB'000	% change + / (-)
Revenue	366,268	197,606	85.4	589,945	369,284	59.8
Costs of sales	<u>(221,227)</u>	<u>(129,305)</u>	71.1	<u>(354,869)</u>	<u>(244,347)</u>	45.2
Gross profit	145,041	68,301	112.4	235,076	124,937	88.2
Other revenue	1,975	864	128.6	2,557	1,568	63.1
Selling and distribution expenses	(9,930)	(5,459)	81.9	(15,383)	(10,283)	49.6
Administrative expenses	(3,382)	(2,496)	35.5	(6,585)	(4,891)	34.6
Other operating expenses	<u>(563)</u>	<u>(315)</u>	78.7	<u>(972)</u>	<u>(709)</u>	37.1
Profit from operations	133,141	60,895	118.6	214,693	110,622	94.1
Finance costs	<u>(1,463)</u>	<u>(1,271)</u>	15.1	<u>(2,926)</u>	<u>(2,753)</u>	6.3
Profit before taxation	131,678	59,624	120.8	211,767	107,869	96.3
Taxation	<u>(19,882)</u>	-	N.M.	<u>(31,900)</u>	-	N.M.
Profit for the period	<u><u>111,796</u></u>	<u><u>59,624</u></u>	87.5	<u><u>179,867</u></u>	<u><u>107,869</u></u>	66.7

N.M. : Not meaningful

The Group's profit before taxation is arrived at after charging:

	<u>Group</u>		<u>Group</u>	
	Three months ended 30.6.2006 <u>(Unaudited)</u> <u>RMB'000</u>	Three months ended 30.6.2005 <u>(Unaudited)</u> <u>RMB'000</u>	Six months ended 30.6.2006 <u>(Unaudited)</u> <u>RMB'000</u>	Six months ended 30.6.2005 <u>(Unaudited)</u> <u>RMB'000</u>
Amortisation of land use rights	356	357	712	713
Depreciation	7,128	4,497	13,010	8,707
Research and development costs	450	562	851	724
Loss on disposal of property, plant and equipment	152	28	186	48

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	<u>Group</u>		<u>Company</u>	
	30.6.2006	31.12.2005	30.6.2006	31.12.2005
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
ASSETS				
Non-current assets				
Investment in subsidiaries	-	-	225,988	225,988
Property, plant and equipment	571,431	482,241	-	-
Deposits	18,148	8,144	-	-
Land use rights	35,975	36,687	-	-
	<u>625,554</u>	<u>527,072</u>	<u>225,988</u>	<u>225,988</u>
Current assets				
Inventories	165,780	163,496	-	-
Trade receivables	26,236	13,728	-	-
Amount due from a subsidiary	-	-	472,478	530,569
Prepayment, other receivables and deposits	12,900	15,220	775	812
Cash and bank balances	437,005	451,574	1,023	100
	<u>641,921</u>	<u>644,018</u>	<u>474,276</u>	<u>531,481</u>
TOTAL ASSETS	<u><u>1,267,475</u></u>	<u><u>1,171,090</u></u>	<u><u>700,264</u></u>	<u><u>757,469</u></u>
EQUITY AND LIABILITIES				
Total equity	<u>1,062,363</u>	<u>999,496</u>	<u>690,355</u>	<u>747,524</u>
Current liabilities				
Interest-bearing bank borrowing	100,000	100,000	-	-
Trade payables	14,603	10,468	-	-
Accrued liabilities, other payables and deposits received	61,427	51,926	5,416	7,200
Amount due to a subsidiary	-	-	4,493	2,745
Provision for taxation	19,882	-	-	-
	<u>195,912</u>	<u>162,394</u>	<u>9,909</u>	<u>9,945</u>
Non-current liabilities				
Other payable	9,200	9,200	-	-
Total liabilities	<u>205,112</u>	<u>171,594</u>	<u>9,909</u>	<u>9,945</u>
TOTAL EQUITY AND LIABILITIES	<u><u>1,267,475</u></u>	<u><u>1,171,090</u></u>	<u><u>700,264</u></u>	<u><u>757,469</u></u>

1(b)(ii) Aggregate amount of group's borrowings and debt securities.**Amount repayable in one year or less, or on demand**

As at 30.6.2006		As at 31.12.2005	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
100,000	4,600	100,000	4,600

Amount repayable after one year

As at 30.6.2006		As at 31.12.2005	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
-	9,200	-	9,200

Details of any collateral

As at 30 June 2006, the Group's interest bearing bank loan, which bears interest 5.85% per annum, is secured by the pledge of certain leasehold buildings and plant and machinery with a net book value amounting to approximately RMB129,250,000 (2005: approximately RMB134,750,000).

1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	<u>Group</u>		<u>Group</u>	
	Three months ended 30.6.2006 <u>(Unaudited)</u> RMB'000	Three months ended 30.6.2005 <u>(Unaudited)</u> RMB'000	Six months ended 30.6.2006 <u>(Unaudited)</u> RMB'000	Six months ended 30.6.2005 <u>(Unaudited)</u> RMB'000
Cash flows from operating activities				
Profit before taxation	131,678	59,624	211,767	107,869
Adjustments for:				
Interest income	(998)	(304)	(1,338)	(436)
Interest expense	1,463	1,271	2,928	2,753
Amortisation of land use rights	356	357	712	713
Depreciation	7,128	4,497	13,010	8,707
Loss on disposal of property, plant and equipment	152	28	186	48
Operating profit before working capital changes	139,779	65,473	227,265	119,654
Decrease/(increase) in inventories	53,035	7,510	(2,284)	58,676
Increase in trade receivables	(5,903)	(3,547)	(12,508)	(13,912)
Decrease/(increase) in prepayment, other receivables and deposits	12,390	(11,118)	2,320	(5,312)
(Decrease)/increase in trade payables	(2,932)	1,283	4,135	1,272
Increase/(decrease) in accrued liabilities, other payables and deposits received	9,483	10,693	9,501	(22,445)
Cash generated from operations	205,852	70,294	228,429	137,933
Tax paid	(12,018)	-	(12,018)	-
Interest paid	(1,463)	(2,753)	(2,926)	(3,311)
Net cash inflow from operating activities	192,371	67,541	213,485	134,622
Cash flows from investing activities				
Purchases of property, plant and equipment	(55,180)	(54,555)	(102,386)	(89,132)
Interest received	998	304	1,338	436
Deposits paid for acquisition of property, plant and equipment	4,995	(16,114)	(10,004)	(20,496)
Net cash used in investing activities	(49,187)	(70,365)	(111,052)	(109,192)
Cash flows from financing activities				
Proceeds from issuance of new ordinary shares	-	433,665	-	433,665
Payments of share issue expenses	-	(30,490)	-	(30,490)
Dividend paid	(117,000)	-	(117,000)	-
Repayment of bank loans	-	(100,000)	-	(100,000)
Net cash (used in)/generated from financing activities	(117,000)	303,175	(117,000)	303,175
Net increase/(decrease) in cash and cash equivalents	26,184	300,351	(14,567)	328,605
Cash and cash equivalents at beginning of period	410,821	66,006	451,574	37,752
Cash and cash equivalents at end of period	437,005	366,357	437,007	366,357
Analysis of balances of cash and cash equivalents				
Cash and bank balances	437,005	366,357	437,007	366,357

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Issued share capital	Proposed dividends	Share premium	Statutory reserves	Merger reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<u>Group</u>							
Pursuant to Restructuring exercise	225,988	-	-	-	135,709	-	361,697
Issue of new ordinary shares:							
Initial public offering ("IPO")	75,420	358,245	-	-	-	-	433,665
Share issue expenses	-	(30,490)	-	-	-	-	(30,490)
Profit for the period	-	-	-	-	-	107,869	107,869
Transfer to statutory reserves	-	-	-	10,787	-	(10,787)	-
Balance at 30 June 2005	<u>301,408</u>	<u>327,755</u>	<u>-</u>	<u>10,787</u>	<u>135,709</u>	<u>97,082</u>	<u>872,741</u>
Balance at 1 January 2006	301,408	117,000	327,755	35,761	135,709	81,863	999,496
Dividend paid - 2005 Final	-	(117,000)	-	-	-	-	(117,000)
Profit for the period	-	-	-	-	-	179,867	179,867
Transfer to statutory reserves	-	-	-	17,987	-	(17,987)	-
Proposed dividend - 2006 Interim	-	54,000	-	-	-	(54,000)	-
Balance at 30 June 2006	<u>301,408</u>	<u>54,000</u>	<u>327,755</u>	<u>53,748</u>	<u>135,709</u>	<u>189,743</u>	<u>1,062,363</u>
<u>Company</u>							
Balance at 1 January 2005	-	-	-	-	-	(92)	(92)
Pursuant to Restructuring Exercise	225,988	-	-	-	-	-	225,988
Issue of new ordinary shares:							
IPO	75,420	358,245	-	-	-	-	433,665
Share issue expenses	-	(30,490)	-	-	-	-	(30,490)
Profit for the period	-	-	-	-	-	88	88
Balance at 30 June 2005	<u>301,408</u>	<u>327,755</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4)</u>	<u>629,159</u>
Balance at 1 January 2006	301,408	117,000	327,755	-	-	1,361	747,524
Dividend paid - 2005 Final	-	(117,000)	-	-	-	-	(117,000)
Profit for the period	-	-	-	-	-	59,831	59,831
Proposed dividend - 2006 Interim	-	54,000	-	-	-	(54,000)	-
Balance at 30 June 2006	<u>301,408</u>	<u>54,000</u>	<u>327,755</u>	<u>-</u>	<u>-</u>	<u>7,192</u>	<u>690,355</u>

- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

	Number of shares	S\$
Ordinary shares of S\$0.1 each at 1 January and 30 June 2006	<u>600,000,000</u>	<u>60,000,000</u>

There were no changes in the Company's share capital in 2Q 2006.

There were no options granted and issue of shares pursuant to the Employee's share option scheme.

- 2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

These figures presented have neither been audited or reviewed.

- 3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable.

- 4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The Group has adopted the same accounting policies and methods of computations as stated in the audited financial statements for the year ended 31 December 2005, excepts for the adoption of the revised International Financial Reporting Standards (IFRSs) which become effective for financial year beginning on or after 1 January 2006. The adoption of these revised IFRSs did not give rise to significant changes to the financial statements.

- 5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

Not applicable.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

Earnings per ordinary share

	<u>Group</u>		<u>Group</u>	
	Three months ended 30.6.2006 <u>(Unaudited)</u>	Three months ended 30.6.2005 <u>(Unaudited)</u>	Six months ended 30.6.2006 <u>(Unaudited)</u>	Six months ended 30.6.2005 <u>(Unaudited)</u>
Basic	<u>RMB0.186</u>	<u>RMB0.112</u>	<u>RMB0.300</u>	<u>RMB0.220</u>
Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Basic earnings per ordinary share for the three months and six months ended 30 June 2006 were calculated based on the Group's profit after taxation of approximately RMB111,796,000 (three months ended 30 June 2005: approximately RMB59,624,000) and RMB179,867,000 (six months ended 30 June 2005: approximately RMB107,869,000) divided by the post-invitation issued share capital of 600,000,000 ordinary shares (three months and six months ended 30 June 2005: weighted average of 530,769,231 and 490,607,735 ordinary shares).

Diluted earnings per ordinary share for the three months and six months ended 30 June 2006 and 2005 have not been calculated as no diluting events existed during these periods.

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:-

- (a) current financial period reported on; and
(b) immediately preceding financial year.

	<u>Group</u>		<u>Company</u>	
	As at 30.6.2006 (Unaudited)	As at 31.12.2005 (Audited)	As at 30.6.2006 (Unaudited)	As at 31.12.2005 (Audited)
Net asset value per ordinary share	<u>RMB1.771</u>	<u>RMB1.666</u>	<u>RMB1.151</u>	<u>RMB1.246</u>

Net asset value per ordinary share was calculated based on:

- the shareholder's equity of our Group/Company at 30 June 2006 and 31 December 2005; and
- the issued ordinary shares at 30 June 2006 and 31 December 2005 of 600,000,000 ordinary shares.

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-

- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and

Review of Group's Performance for 2Q 2006 as compared to 2Q 2005

Revenue

Compared to the same period last year, revenue for the second quarter of FY 2006 increased by 85.4% from RMB197.6 million to RMB366.3 million. The growth derived mainly from higher sales of soy protein isolates ("SPI") and soy oligosaccharide syrup ("SOS").

Sales of SPI increased by 83.9% or RMB101.0 million over that of 2Q 2005 to reach RMB221.4 million. Two factors contributed to the rise: 1) higher demand resulted from the drop in selling price, from RMB13.80/kg in 2Q 2005 to RMB13.15/kg in 2Q 2006 and 2) higher output contributed by additional new production lines, with a total annual production capacity of 40,000 tonnes per annum. These lines were installed in September 2005 and June 2006, and lifted our total production capacity for SPI by 80% to 90,000 tones per annum. SPI accounted for 60.4% of the total revenue in 2Q 2006 .

Sales of SOS surged from RMB32.0 million in 2Q 2005 to RMB102.2 million in 2Q 2006. Since it was launched in 2003, demand for SOS has been growing steadily due to rising disposable income as well as increasing awareness and consumption of health promoting products in China. In 1Q 2006, we secured minimum order commitment from 300 distributors to market this product. SOS was also sold to a second beverage manufacturer as health promoting ingredient from July 2005.

Group Gross Profit and Margin

Gross profit rose by 112.4% from RMB68.3 million in 2Q 2005 to RMB145.0 million in 2Q 2006.

Overall gross profit margin further increased from 34.6% in 2Q 2005 to 39.6% in 2Q 2006. The rise was mainly due to: 1) greater economies of scale from the higher output of our products and 2) a further shift in product mix to higher margin SOS.

In March and December 2005, the installations of new production lines for defatted soy flakes at our Linyi Plant added a total production capacity of 120,000 tonnes per annum of soy flakes per annum, effectively increasing our capacity to 165,000 tonnes per annum. The added capacity gave us the latitude to reduce the percentage of externally sourced defatted soy flakes and therefore lowered the cost of production.

Operating Expenses

Operating expenses increased by 67.8% in 2Q 2006 to RMB13.9 million. As a percentage of revenue, operating expenses has improved from 4.2% in 2Q 2005 to 3.8% in 2Q 2006.

Selling and distribution expenses increased by 81.9% or RMB4.4 million from 5.5 million in 2Q 2005 to RMB9.9 million in 2Q 2006. We incurred more advertising and promotion expenses to build brand equity and market awareness of our SOS. Transportation costs also rose in tandem with the level of business activities.

Administrative expenses rose by 35.5% or RMB0.9 million from RMB2.5 million in 2Q 2005 to RMB 3.4 million in 2Q 2006. The increase was mainly attributed to the higher costs incurred to support our increase in revenue and business expansion.

Taxation

The tax charge represents applicable PRC corporate income tax provided for the period.

From FY 2004, our subsidiary, Linyi Shansong Biological Products Co. Limited, began to enjoy tax holiday for the first two profitable years, and thereafter, to pay tax at only half the corporate income tax rate for the following three years from FY 2006 to FY 2008.

Net Profit for the Year and Margin

The significant increase in revenue with smaller increase in operating expenses helped us to achieve a significant increase in net profit for the period. Net profit totalled RM 111.8 million for the quarter, compared with RMB59.6 million in 2Q 2005.

Net profit margin gained a 0.3 percentage points from 30.2% in 2Q 2005 to 30.5% in 2Q 2006.

Review of Group's Financial Position as at 30 June 2006 and 31 December 2005

Net tangible assets as at 30 June 2006 amounted to RMB1,062.4 million (31 December 2005: RMB999.5 million), representing an increase of 6.3%.

We incurred capital expenditure of RMB55.2 million during the quarter. In June 2006, the installations of new production lines for SPI and SOS were completed. Details would be discussed at point 10 below.

Trade receivables rose from RMB13.7 million as at the end of December 2005 to RMB26.2 million as at the end of June 2006. Nevertheless, the average receivable turnover days is still at a comfortable level of about 6 days.

We took up a bank borrowing of RMB100 million for general working capital and to finance the production capacity expansion during the second half of FY 2005.

(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Not applicable.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

No forecast or prospect statement had been previously disclosed to shareholders.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

In June FY2006, the Group announced that rising demand prompted management to accelerate and complete the capacity expansion plans for SOS and SPI. Production capacity for the high margin health syrup, SOS, has risen by 160% to 10,400 tons from 4,000 tons per annum. Production capacity for SPI, a common food ingredient used in processed meat has also been expanded by 29% to 90,000 tons from 70,000 tons per annum. As a result of the capacity expansion, the Group will continue to remain as one of the leading producers for soybean based health food and food ingredients in China.

In July FY2006, the Group announced that it had secured orders worth RMB429 million for its own Tian Song brand SOS from a newly appointed master distributor for the China market. These SOS orders are expected to be delivered in the second half of FY2006.

Barring unforeseen circumstances, the Group is optimistic of its performance in the second half of the year since SOS commands the highest margin and selling price. The Group expects the new SOS orders to have a positive impact on the Group's revenue and earnings in the second half of FY2006.

11. Dividend***(a) Current Financial Period Reported On***

Any dividend declared for the current financial period reported on? Yes

Name of Dividend	Interim
Dividend Type	Cash
Dividend Rate	RMB0.09 per ordinary share
Par Value of Shares	S\$0.1
Tax Rate	Not applicable

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year? No

(c) Date payable

To be announced at a later date.

(d) Books closure date

To be announced at a later date.

12. If no dividend has been declared/recommended, a statement to that effect.

Not applicable.

13. Interested person transactions

Interested person transactions carried out during the three months period ended 30 June 2006:

Name of Interested person	Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than \$100,000 and transactions conducted under Shareholders' Mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under Shareholders' Mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
PFH Group (Note 1)	RMB5,438,000 (Note 2)	RMB75,971,000 (Note 3)

Notes:

1. PFH Group means People's Food Holdings Limited and its subsidiaries. People's Food Holdings Limited is one of our Substantial Shareholders, which indirectly holds approximately 49% and 36.75% interests of our Company prior to and after the Company's Initial Public Offer.
2. The amount represents the charges paid to PFH Group for the supply of electricity. The charges were made were reference to the market price.
3. The amount represents the sales of soy protein isolates to PFH Group.

BY ORDER OF THE BOARD

Li Zhu Ping
Executive Director
10 August 2006