



REPORT OF THE DIRECTORS

The Directors have pleasure in presenting the annual report and the audited accounts of China Agrotech Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 30 June 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) the manufacturing and selling of plant growth regulatory products, pesticides and fertilisers (“manufacturing operation”), (ii) the trading of pesticides, fertilisers and other agricultural resources products (“trading operation”) and (iii) the provision of plant protection technical services (“consultancy operation”) in Mainland China.

Other operation of the Group mainly comprises the business of investment holding, which is not of a sufficient size to be reported separately.

An analysis of the Group’s turnover and segment results for the year ended 30 June 2004 is as follows:

	Turnover		Segment results	
	2004 <i>HK\$’000</i>	2003 <i>HK\$’000</i>	2004 <i>HK\$’000</i>	2003 <i>HK\$’000</i> <i>(restated)</i>
By business segment:				
Manufacturing operation	187,846	155,703	41,059	51,944
Trading operation	631,537	507,905	(19,323)	(15,377)
Consultancy operation	2,644	484	1,225	(1,510)
Other operation	–	–	(4,740)	(6,310)
	<hr/> 822,027 <hr/>	<hr/> 664,092 <hr/>	<hr/> 18,221 <hr/>	<hr/> 28,747 <hr/>

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2004 are set out in the consolidated income statement on page 29 of this annual report. No geographical analysis of the Group’s turnover and segment results is presented as the Group’s turnover and segment results are all derived from Mainland China.

The Directors have resolved not to recommend the payment of any final dividend for the year ended 30 June 2004 (2003: Nil) and recommend that the retained profit of approximately HK\$164,815,000 as at 30 June 2004 be carried forward.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 28 to the accounts.



RESERVES AND RETAINED PROFIT

Details of the movements in the reserves of the Group and of the Company during the year are set out in Note 29 to the accounts.

As at 30 June 2004, the Company's reserve available for distribution to shareholders amounted to approximately HK\$90,607,000 which is computed in accordance with the Companies Law (Amended) of the Cayman Islands and the Company's Articles of Association. This includes the Company's share premium of approximately HK\$98,550,000 and contributed surplus of approximately HK\$11,527,000, less accumulated losses of approximately HK\$19,470,000, which is available for distribution provided that immediately following the date on which the distribution is proposed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 16 to the accounts.

SUBSIDIARIES

Details of the Company's subsidiaries as at 30 June 2004 are set out in Note 18 to the accounts.

PENSION SCHEMES

Details of the Group's pension schemes for the year ended 30 June 2004 are set out in Note 10 to the accounts.

CONNECTED TRANSACTIONS

During the year ended 30 June 2004, there was no transaction which needed to be disclosed as connected transaction in accordance with the requirements of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In respect of the connected transactions with 福建錦溪集團有限公司, a connected party, for which The Stock Exchange of Hong Kong Limited has granted a waiver from strict compliance with the relevant requirements of the Listing Rules, the Group had no such connected transactions during the year ended 30 June 2004.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 4 and 5.



DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Wu Shaoning (*Chairman*)

Mr. Yang Zhuoya (*Managing Director*)

Independent Non-executive Directors:

Ms. He Zhongpei (*resigned on 10 August 2004*)

Mr. Lam Ming Yung

Mr. Zhang Shaosheng (*appointed on 10 August 2004*)

Mr. Wong Chi Wai (*appointed on 27 September 2004*)

In accordance with Article 86(3) of the Company's Articles of Association, Mr. Zhang Shaosheng and Mr. Wong Chi Wai will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 87 of the Company's Articles of Association, Mr. Lam Ming Yung will retire by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

DIRECTORS' SERVICE AGREEMENTS

Each of the Executive Directors of the Company has entered into a service agreement with the Company. The respective terms of the service agreements of the Executive Directors of the Company are as follows:

Mr. Wu Shaoning 10 years

Mr. Yang Zhuoya 3 years

All the service agreements commenced on 15 November 1999, and shall continue thereafter unless and until terminated by either party giving to the other not less than three months' notice in writing.

Mr. Lam Ming Yung, being an Independent Non-executive Director of the Company, has entered into a service agreement with the Company for a term of two years commencing on 15 November 1999 and shall continue thereafter unless and until terminated by either party giving to the other not less than three months' notice in writing.

Mr. Zhang Shaosheng and Mr. Wong Chi Wai were appointed as Independent Non-executive Directors of the Company for a term of one year commencing on 10 August 2004 and 27 September 2004 respectively unless and until terminated by either party giving to the other not less than three months' notice in writing.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.



Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management of the Group are set out on pages 17 to 18.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2004, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Listing Rules were as follows:

Long positions in shares of the Company

Name of Director	Number of ordinary shares			Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. Wu Shaoning	182,000,000	–	–	182,000,000	43.17%

Long positions in underlying shares of the Company

Share Options in the Company

Name of Director	Date of grant	Exercise price HK\$	Exercisable period	No. of shares in respect of options outstanding as at 30 June 2004
Mr. Wu Shaoning	01/12/2003	0.55	01/01/2004-30/12/2011	3,500,000
Mr. Yang Zhuoya	01/12/2003	0.55	01/01/2004-30/12/2011	3,500,000

Save as disclosed above, none of the directors, chief executives or their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are recorded in the register required to be kept by the Company under Section 352 of the SFO or which are notified to the Company and the Stock Exchange pursuant to the Model Code.



SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2004, so far as is known to the Directors, the following parties (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Mr. Tung Fai	Beneficial owner	29,868,000	7.09%
Atlantis Investment Management Ltd. A/C Atlantis China Fund	Investment Manager	22,000,000	5.22%

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the headings "Share Option Scheme" below and "Placing and Subscription of Shares" below and "Directors' and Chief Executives' Interests in Securities" above, at no time during the year 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.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

There was no contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted at the end of the year or at any time during the year, and in which a Director had, whether directly or indirectly, a material interest, nor there was any contract of significance in relation to the Company's business between the Company or any of the Company's subsidiaries and a controlling shareholder or any of its subsidiaries.

SHARE OPTION SCHEME

A share option scheme (the "Scheme") was adopted pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31 December 2001 for the primary purpose of providing incentives or rewards to selected participants, and will expire on 30 December 2011. Under the Scheme, the Company may grant options to any participant ("Participant") which includes (i) any employee or proposed employee (whether full time or part time) of the Company, any of its subsidiaries or any entity in which the Group holds an equity interest ("Invested Entity"), including any Executive Director of the Company, any of such subsidiaries or any Invested Entity; (ii) any Non-executive Directors (including Independent Non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv)



any customer of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity, and for the purposes of the Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of Participants, to subscribe for shares of the Company.

The total number of shares in respect of which options may be granted under the Scheme must not exceed 10% of the shares of the Company in issue as at the adoption date. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to a Participant in any 12-month period must not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of the individual limit must be subject to shareholders' approval.

Options granted must be taken up within 21 days from the offer date, upon payment of HK\$1.00 per option. Option may be exercised after it has vested at any time during the period to be notified by the Committee (as defined in the Scheme) at the time of the grant of the option but shall end in any event not later than 10 years from the offer date, subject to the provisions for early termination of the Scheme. The Subscription Price shall be determined by the Committee (as defined in the Scheme) and notified to a Participant and shall not be less than the higher of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the Offer Date, which must be a Business Day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the Offer Date; and (c) the nominal value of the shares.

Details of the movements of the outstanding share options granted under the Scheme of the Company during the year were as follows:

Name or category of participant	Number of shares in respect of options			Date of grant	Exercisable period	Exercise price per share HK\$
	Balance as at 1 July 2003	Granted during the year	Outstanding as at 30 June 2004			
Directors:						
Mr. Wu Shaoning	–	3,500,000	3,500,000	01/12/2003	01/01/2004 – 30/12/2011	0.55
Mr. Yang Zhuoya	–	3,500,000	3,500,000	01/12/2003	01/01/2004 – 30/12/2011	0.55
Employees:						
In aggregate	–	23,000,000	23,000,000	01/12/2003	01/01/2004 – 30/12/2011	0.55
Total	–	30,000,000	30,000,000			



Notes:

1. No option has been exercised, lapsed and cancelled during the year ended 30 June 2004.
2. Since no option has been exercised during the year ended 30 June 2004, the weighted average closing price immediately before the exercise date (if exercised) is not applicable.
3. The closing price immediately before the date of grant of options granted on 1 December 2003 was HK\$0.53.

PLACING AND SUBSCRIPTION OF SHARES

On 18 December 2003, Mr. Wu Shaoning ("Mr. Wu"), a Director and a substantial shareholder of the Company, entered into an unconditional placing agreement with the Company and ICEA Capital Limited, a placing agent, in respect of the placing of up to 70,000,000 existing shares of the Company by Mr. Wu through ICEA Capital Limited to independent placees on a best efforts basis at a placing price of HK\$0.50 per share (the "Placing").

On the same date, Mr. Wu entered into a conditional subscription agreement with the Company in respect of the subscription of up to 70,000,000 new shares of the Company by Mr. Wu at a price of HK\$0.50 per share (the "Subscription").

The Placing was completed on 23 December 2003 and a total of 70,000,000 existing shares were placed to independent placees. The Subscription was completed on 30 December 2003 and a total of 70,000,000 new shares were subscribed by Mr. Wu. The net proceeds of approximately HK\$34 million would be used as general working capital of the Company in respect of its trading operations in Mainland China.

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases for the year attributable to the Group's major suppliers is as follows:

– the largest supplier	11%
– five largest suppliers combined	29%

None of the Directors, their associates, or any shareholders (which to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest suppliers.

The five largest customers combined accounted for less than 30% of the Group's consolidated turnover for the year.



COMPETING INTERESTS

None of the Directors has an interest in a business which competes or may compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not redeem any of its listed securities during the year ended 30 June 2004. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated.

CODE OF BEST PRACTICE

The Company had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the financial year under review, except for Mr. Lam Ming Yung, an Independent Non-executive Director, is not appointed for any specific term as he is subject to retirement by rotation in accordance with Article 87 of the Company's Articles of Association.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 30 June 2004, the Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard set out in the Model Code regarding securities transactions by directors.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-executive Directors an annual confirmation for independence pursuant to rule 3.13 of the Listing Rules. The Independent Non-executive Directors have confirmed that they are independent.

PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float.



AUDIT COMMITTEE

Mr. Zhang Shaosheng and Mr. Wong Chi Wai have been appointed as Independent Non-executive Directors of the Company on 10 August 2004 and 27 September 2004 respectively; Ms. He Zhongpei resigned as an Independent Non-executive Director of the Company on 10 August 2004. After the change of the said Independent Non-executive Directors, the members of the audit committee ("Audit Committee") comprise of Mr. Lam Ming Yung, Mr. Zhang Shaosheng and Mr. Wong Chi Wai.

The Audit Committee has reviewed with the Company's management, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including review of the unaudited interim accounts and the audited annual accounts of the Group during the year.

SUBSEQUENT EVENT

No significant event occurred subsequent to the balance sheet date as of 30 June 2004 and up to the date of this report.

AUDITORS

Arthur Andersen & Co acted as one of the joint auditors of the Group for the years ended 30 June 1999, 2000 and 2001. Following the combining of the practice of Arthur Andersen & Co with PricewaterhouseCoopers, Arthur Andersen & Co resigned as one of the joint auditors of the Group and the Company's shareholders appointed PricewaterhouseCoopers as one of the joint auditors to fill the casual vacancy at an extraordinary general meeting ("EGM") held on 4 September 2002.

Subsequently, PricewaterhouseCoopers resigned as one of the joint auditors of the Group on 17 August 2004. CCIF CPA Limited (formerly known as Charles Chan, Ip & Fung CPA Ltd.), the remaining joint auditors, remained in office as auditors of the Group following the resignation of PricewaterhouseCoopers, pursuant to a resolution passed at the EGM held on 24 September 2004.

The accounts have been audited by CCIF CPA Limited, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Wu Shaoning
Chairman

Hong Kong, 25 October 2004