



China Agrotech Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Interim Report
2004-2005

China Agrotech



CHINA AGROTECH HOLDINGS LIMITED
INTERIM REPORT 2004-2005



The Directors of China Agrotech Holdings Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 31st December, 2004 together with the comparative figures for the corresponding period in 2003 as set out below. This interim report has been reviewed by the Company's audit committee.

UNAUDITED ACCOUNTS

Consolidated Income Statement

		Six months ended	
		31st December,	
		2004	2003
	<i>Note</i>	HK\$'000	HK\$'000
Turnover	2	500,197	329,331
Cost of sales		<u>(444,601)</u>	<u>(265,814)</u>
Gross profit		55,596	63,517
Other revenues		3,044	1,148
Selling and distribution expenses		(16,414)	(17,391)
General and administrative expenses		<u>(28,046)</u>	<u>(20,760)</u>
Operating profit		14,180	26,514
Finance costs		<u>(4,118)</u>	<u>(847)</u>
Profit before taxation	3	10,062	25,667
Taxation	4	<u>(76)</u>	<u>-</u>
Profit after taxation		9,986	25,667
Minority interests		<u>520</u>	<u>933</u>
Profit attributable to shareholders		<u>10,506</u>	<u>26,600</u>
Basic earnings per share	5	<u>HK2.5 cents</u>	<u>HK7.5 cents</u>



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Consolidated Balance Sheet

		At 31st December, 2004 HK\$'000	At 30th June, 2004 HK\$'000
	<i>Note</i>		
System development costs	6	24,573	28,909
Other intangible assets	7	107,285	106,403
Fixed assets		56,590	62,022
Prepayments and deposits	8	43,646	20,041
CURRENT ASSETS			
Inventories		69,009	59,614
Prepayments, deposits and other receivables		230,353	136,094
Trade receivables	9	89,828	79,830
Due from directors		141	613
Restricted bank deposits		79,555	65,892
Cash and bank balances		56,657	46,066
Total current assets		<u>525,543</u>	<u>388,109</u>
CURRENT LIABILITIES			
Trade and bills payable	10	(270,635)	(199,544)
Accruals and other payables		(71,115)	(31,104)
Taxation payable		(4,978)	(5,693)
Due to directors		-	(120)
Short-term bank loans, secured	11	(77,300)	(45,909)
Total current liabilities		<u>(424,028)</u>	<u>(282,370)</u>
Net current assets		<u>101,515</u>	<u>105,739</u>
Total assets less current liabilities		<u>333,609</u>	<u>323,114</u>
Non-current liabilities			
Long-term bank loan, secured	12	(1,885)	(1,885)
		<u>331,724</u>	<u>321,229</u>
Financed by:			
Share capital	13	42,157	42,157
Reserves		283,187	272,681
Shareholders' funds		325,344	314,838
Minority interests		6,380	6,391
		<u>331,724</u>	<u>321,229</u>

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Consolidated Cash Flow Statement

	Six months ended 31st December,	
	2004	2003
	HK\$'000	HK\$'000 (restated)
NET CASH INFLOW FROM OPERATIONS	33,502	8,899
Finance costs paid	(4,118)	(847)
Mainland China enterprise income tax paid	(791)	-
	<u>28,593</u>	<u>8,052</u>
NET CASH INFLOW FROM OPERATING ACTIVITIES		
INVESTING ACTIVITIES		
Interest received	510	1,072
Purchase of fixed assets	(889)	(9,403)
Sale proceeds of fixed assets	-	262
Prepayment for purchase of production base	-	(10,366)
Purchase of businesses	(1,886)	(5,654)
Payment for technical know-how	(5,656)	-
Payment for acquisition of additional interest in a subsidiary	-	(127)
Prepayment for registered capital of subsidiaries	(28,318)	-
Translation adjustments	-	(29)
	<u>(36,239)</u>	<u>(24,245)</u>
Net cash outflow from investing activities		
Net cash outflow before financing	(7,646)	(16,193)
FINANCING		
Issue of new shares	-	34,082
New bank loans	31,391	16,397
Advances from a director	-	400
Capital contribution from minority shareholders	509	1,414
Increase in restricted bank deposits	(13,663)	(3,010)
	<u>18,237</u>	<u>49,283</u>
Net cash inflow from financing		
Increase in cash and cash equivalents	10,591	33,090
Cash and cash equivalents, beginning of period	46,066	28,086
	<u>56,657</u>	<u>61,176</u>
Cash and cash equivalents, end of period		

Consolidated Statement of Changes in Equity

	Six months ended 31st December, 2004						Six months ended 31st December, 2003	
	Share capital	Share premium	Statutory reserves	Capital reserve	Exchange reserve	Retained earnings	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of period	42,157	98,550	8,006	1,188	122	164,815	314,838	266,033
Issue of new shares	-	-	-	-	-	-	-	34,082
Translation adjustments	-	-	-	-	-	-	-	(29)
Profit attributable to shareholders	-	-	-	-	-	10,506	10,506	26,600
At end of period	<u>42,157</u>	<u>98,550</u>	<u>8,006</u>	<u>1,188</u>	<u>122</u>	<u>175,321</u>	<u>325,344</u>	<u>326,686</u>

Note:

1. Basis of presentation and principal accounting policies

The interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (as applicable to condensed interim accounts) and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The principal accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 30th June, 2004.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the interim accounts for the six months ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

2. Segment information

a. Primary reporting format-business segments

The Group is organised into three major business segments: (i) manufacturing and selling of plant growth regulatory products ("PGR(s)"), pesticides and fertilisers (the "manufacturing operation"); (ii) trading of fertilisers, pesticides and other agricultural resources products (the "trading operation") and (iii) provision of plant protection technical services (the "consultancy operation") in Mainland China.

Other operations of the Group mainly comprise the business of investment holding which is not of a sufficient size to be reported separately.

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An analysis of the Group's turnover and segment results is as follows:

(i) For the six months ended 31st December, 2004

	Manufacturing operation HK\$'000	Trading operation HK\$'000	Consultancy operation HK\$'000	Other operations HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover						
External sales	60,394	433,594	6,209	-		500,197
Inter-segment sales	-	-	-	-	-	-
	<u>60,394</u>	<u>433,594</u>	<u>6,209</u>	<u>-</u>		<u>500,197</u>
Segment results	<u>19,804</u>	<u>(8,523)</u>	<u>4,252</u>	<u>(1,863)</u>		13,670
Interest income						510
Finance costs						(4,118)
Taxation						(76)
Minority interests						<u>520</u>
Profit attributable to shareholders						<u>10,506</u>

(ii) For the six months ended 31st December, 2003 (restated)

	Manufacturing operation HK\$'000	Trading operation HK\$'000	Consultancy operation HK\$'000	Other operations HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover						
External sales	123,412	204,995	924	-		329,331
Inter-segment sales	1,558	453	-	-	(2,011)	-
	<u>124,970</u>	<u>205,448</u>	<u>924</u>	<u>-</u>		<u>329,331</u>
Segment results	<u>38,489</u>	<u>(11,288)</u>	<u>(50)</u>	<u>(1,709)</u>		25,442
Interest income						1,072
Finance costs						(847)
Minority interests						<u>933</u>
Profit attributable to shareholders						<u>26,600</u>

b. Secondary reporting format-geographical segments

No geographical analysis of the Group's turnover and segment results is presented as all of the Group's turnover is attributable to business conducted in Mainland China.



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3. Profit before taxation

Profit before taxation is stated after charging and crediting the following items:

	Six months ended	
	31st December,	
	2004	2003
	HK\$'000	HK\$'000
<i>After charging:-</i>		
Staff costs (including directors' emoluments)	6,072	5,578
Amortisation of intangible assets		
– System development costs	4,336	4,335
– Goodwill	5,357	4,758
– Product development costs	737	1,696
– Technical know-how	5,279	4,523
Advertising and promotion expenses	4,869	5,110
Operating lease rentals of premises and motor vehicles	1,345	2,027
Interest on bank loans and facilities wholly repayable within five years	4,118	847
Depreciation of owned fixed assets	6,321	6,138
	_____	_____
<i>After crediting:-</i>		
Interest income from bank deposits	510	1,072
Gain on disposal of fixed assets	–	102
	_____	_____

4. Taxation

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 certain subsidiaries which were domestic enterprises of Mainland China engaging in the trading business, at rates ranging from 16.5% to 33%.

No provision for Mainland China enterprise income tax was made for other Mainland China subsidiaries as they were either in tax loss position or exempted from enterprise income tax during the six months ended 31st December, 2004 (2003: nil).

There was no material unprovided deferred taxation for both interim periods.

5. Earnings per share

The calculations of basic earnings per share for the six months ended 31st December, 2004 is based on the unaudited consolidated profit attributable to shareholders of approximately HK\$10,506,000 (2003: HK\$26,600,000) and the weighted average number of approximately 421,565,000 shares in issue during the six months ended 31st December, 2004 (2003: 352,326,000 shares).

No information on diluted earnings per share is presented because there were no dilutive potential ordinary shares in existence during the six months ended 31st December, 2004 and 2003.

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6. System Development Costs

	Total <i>HK\$'000</i>
Cost:	
At 1st July, 2004 and at 31st December, 2004	43,363
Accumulated amortisation:	
At 1st July, 2004	14,454
Charge for the period	4,336
At 31st December, 2004	18,790
Net book value:	
At 31st December, 2004	24,573
At 30th June, 2004	28,909

7. Other intangible assets

	Goodwill (a) <i>HK\$'000</i>	Product development costs <i>HK\$'000</i>	Technical know-how (b) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1st July, 2004	49,491	27,831	73,152	150,474
Goodwill on acquisition	6,599	-	-	6,599
Payment for technical know-how	-	-	5,656	5,656
At 31st December, 2004	56,090	27,831	78,808	162,729
Accumulated amortisation:				
At 1st July, 2004	18,767	8,776	16,528	44,071
Charge for the period	5,357	737	5,279	11,373
At 31st December, 2004	24,124	9,513	21,807	55,444
Net book value:				
At 31st December, 2004	31,966	18,318	57,001	107,285
At 30th June, 2004	30,724	19,055	56,624	106,403



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(a) Goodwill

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, fertilisers 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. The amount of goodwill included approximately HK\$4,713,000 which was transferred from prepayment of the last year, while HK\$1,886,000 was arising during the period.

(b) Technical know-how

The amount represented the balance payment for intellectual property rights relating to the 28 species of pesticides, germicide and miticide acquired in the last year.

8. Prepayments and deposits

	At 31st December, 2004 HK\$'000	At 30th June, 2004 HK\$'000
Prepayment for consultancy database	7,541	7,541
Prepayment for purchase of business	6,599	11,312
Prepayment for registered capital of subsidiaries (a)	<u>29,506</u>	<u>1,188</u>
	<u>43,646</u>	<u>20,041</u>

- (a) As at 31st December, 2004, the Group injected its portion of registered capital in two non-wholly owned subsidiaries which are incorporated in the Mainland China. Since the formal documents in respect of business registration (evidencing the date of incorporation of the subsidiaries) are still in processing, the amount of capital injection was then included in "Prepayments and deposits".

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9. Trade receivables

The Group generally requires its customers to pay a deposit shortly before delivery of merchandise, with the balance of the sales amount payable within credit periods ranging from 90 to 180 days. Aging analysis of trade receivables is as follows:

	At 31st December, 2004 <i>HK\$'000</i>	At 30th June, 2004 <i>HK\$'000</i>
0 to 30 days	47,736	32,933
31 to 60 days	21,282	15,535
61 to 90 days	5,892	13,140
91 to 180 days	11,199	16,492
Over 180 days	<u>6,176</u>	<u>4,545</u>
	92,285	82,645
Less: Provision for bad and doubtful debts	<u>(2,457)</u>	<u>(2,815)</u>
	<u>89,828</u>	<u>79,830</u>

10. Trade and bills payable

Aging analysis of trade and bills payable is as follows:

	At 31st December, 2004 <i>HK\$'000</i>	At 30th June, 2004 <i>HK\$'000</i>
0 to 30 days	112,410	33,200
31 to 60 days	36,855	21,862
61 to 90 days	22,635	30,504
91 to 180 days	<u>98,735</u>	<u>113,978</u>
	270,635	199,544
	<u>270,635</u>	<u>199,544</u>

11. Short-term bank loans, secured

The short-term bank loans bear interest at rates ranging from 4.5% to 7.3% per annum.

A short-term bank loan of approximately HK\$15,743,000 (denominated in Renminbi) is secured by bank deposit of HK\$17 million (denominated in Hong Kong dollars); and the other short-term bank loans are secured by corporate guarantees provided by certain subsidiaries of the Group.



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12. Long-term bank loan, secured

The long-term bank loan bears interest at a rate of approximately 7.5% per annum, is secured by certain machinery of the Group and is repayable within the second to fifth year, inclusive.

13. Share capital

	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 30th June, and at 31st December, 2004	500,000	50,000
Issued and fully paid:		
At 30th June, and at 31st December, 2004	421,565	42,157

14. Commitments

a. Capital and other commitments:

	At 31st December, 2004 HK\$'000	At 30th June, 2004 HK\$'000
Contracted but not provided for:		
- Technical know-how	-	5,656
- Promotion and advertising expenses	-	2,357
	-	8,013

b. Operating lease commitments:

At 31st December, 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	At 31st December, 2004 HK\$'000	At 30th June, 2004 HK\$'000
Within one year	727	1,321
In the second to fifth year inclusive	66	133
After the fifth year	-	-
	793	1,454

15. Comparative figures

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



INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend for the six months ended 31st December, 2004 (2003: Nil).

BUSINESS REVIEW AND OUTLOOK

Overall Results

For the six months ended 31st December, 2004, the Group's consolidated turnover was approximately HK\$500,197,000 (2003: HK\$329,331,000) and net profit attributable to shareholders was approximately HK\$10,506,000 (2003: HK\$26,600,000), representing a growth of approximately 52% and a decline of approximately 61% respectively as compared to the last financial period.

The increase in consolidated turnover was attributable to the continuous growth of the trading business of agricultural resources products which mitigated the negative effect arising from the temporary suspension of production of PGR and BtA (a biological pesticide) in the manufacturing sector.

However, as the trading business only contributed a relatively lower gross profit margin of approximately 4% while the growth in turnover was approximately 112% and represented 87% of the consolidated turnover, the overall gross profit margin of the Group was lowered to 11% from 19% in the last corresponding period. Also, the net profit attributable to shareholders decreased by approximately 61% which was mainly due to the temporary suspension of PGR and BtA production as mentioned above.

A summary of the turnover, gross profit, gross profit margin and segment results by scope of business, say, manufacturing operation, trading operation, consultancy operation and other operations is as follows:

	Manufacturing operation		Trading operation		Consultancy operation		Other operations		Total	
	Six months ended 31st December, 2004		Six months ended 31st December, 2003		Six months ended 31st December, 2004		Six months ended 31st December, 2003		Six months ended 31st December, 2004	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	60,394	123,412	433,594	204,995	6,209	924	-	-	500,197	329,331
Gross profit	33,089	57,472	17,356	5,421	5,151	624	-	-	55,596	63,517
Gross profit margin	55%	47%	4%	3%	83%	68%	-	-	11%	19%
Segment results	19,804	38,489	(8,523)	(11,288)	4,252	(50)	(1,863)	(1,709)	13,670	25,442



AGRICULTURAL RESOURCES TRADING BUSINESS

For the six months ended 31st December, 2004, turnover from the trading business amounted to approximately HK\$433,594,000 (2003: HK\$204,995,000), representing an increase of approximately 112% from the last financial period and contributed to 87% (2003: 62%) of the consolidated turnover of the Group, demonstrating the rapid growth and increase in market coverage of the trading business and its role as an important contribution to the Group.

In order to promote the cross-province agricultural resources distribution and retail business and to enhance the reputation and brand name of the Group, the Group incurred approximately HK\$2.7 million on nationwide advertising and promotion activities and market researches during the period.

The trading business was quantity-driven with a relatively low gross profit margin of approximately 4% (2003: 3%), and therefore, requires a considerable high turnover level in order to generate adequate gross profit to cover promotion and advertising expenses and amortisation of computer system development cost and goodwill arising from business acquisitions. As a result of the successful management of trading business in the financial period under review, the business turn around with an improve in gross profit margin and recorded an operating profit of approximately HK\$1,170,000 (excluding amortisation of goodwill arising from business acquisitions and computer system development costs) (2003: operating loss of approximately HK\$2,195,000, excluding amortisation of goodwill arising from business acquisitions and computer system development costs).

In the years to come, the Group believes the trading business in different provinces will be more strengthened, the customer networks will become more mature and enlarged and the synergetic effect will be more pronounced. As such, the trading business will contribute to a remarkable profit for the Group in the near future.

Establishment of a Joint Venture (the "JV Company") in Hunan Province

On 22nd December, 2004, the Group entered into an agreement with a provincial level enterprise in Hunan province for the establishment of the JV Company in Hunan province, engaging in the business of trading of agricultural resources. It is expected that the establishment of the JV Company can expand and consolidate the Group's existing business in Hunan province, taking the benefit of the customer base and expertise of the joint venture partner.

Please also refer to the Company's announcement dated 4th January, 2005 for details of the transaction.



AGRICULTURAL RESOURCES PRODUCTION BUSINESS

Plant Growth Regulators

The turnover and operating profit derived from PGR business were approximately HK\$45,249,000 (2003: HK\$75,453,000) and HK\$23,870,000 (2003: HK\$37,747,000) respectively, representing a decrease of 40% and 37% respectively as compared to the last financial period. The decreases were due to the temporary suspension of production from January to October 2004 in order to comply with the new government policy of product testing for environmental purpose. As a result, there was no production and sales of PGR for four months during the current period, which led to a decrease in sales volume of PGR by 40% (2004: 480 tonnes; 2003: 801 tonnes).

Also, as the cost of raw materials remained stable during the period, the gross profit margin was able to maintain at 70% level.

Biological Pesticide (BtA)

Commercial production of BtA commenced in March, 2003 and contributed to a turnover and operation profit (excluding amortisation of acquisition cost of the intellectual property) of approximately HK\$10,110,000 (2003: HK\$27,608,000) and HK\$1,546,000 (2003: HK\$5,764,000) respectively for the six months ended 31st December, 2004, based on a sales volume of 165 tonnes (2003: 451 tonnes). The decrease in sales and operation profit were also due to the same reason as that for PGR.

As the normal production was resumed, it is expected that both PGR and BtA will contribute satisfactory result to the Group in the second half of the financial year.

Production Base in Hubei Province

In August, 2003, the Group entered into an agreement with two independent fertiliser manufacturers for the acquisition of their production facilities, factory premises and land use rights, and for obtaining the right to use their trademark for sale of chemical fertilisers for five years. Mass production of chemical fertilisers commenced since December 2003 and generated a revenue of approximately HK\$5 million during the current period. It is expected that when the production is gradually put on track and the sales channel is better grasped, the production base will generate satisfactory contribution to the Group and strengthen the Group's market position in Hubei province.

Investments in Other Hi-tech Agricultural Resources Products

During the last financial year, the Group acquired a total of 28 species of newly developed pesticides, germicide and miticide for a total consideration of HK\$18.9 million which was fully settled as at 31st December, 2004. These products are expected to launch in the market in the coming year.

PLANT PROTECTION TECHNICAL SERVICES

The Group started to provide comprehensive plant protection technical services to some agriculture produce exporters and large farmlands since 2003 and recorded a service income of approximately HK\$6,209,000 for the six months ended 31st December, 2004. The plant protection technical services received sound response from users and such business is expected to generate synergetic effect with the Group's nationwide agricultural resources trading business and achieve rapid growth in the near future.

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 31st December, 2004, the cash and bank balances and restricted bank deposits of HK\$136,212,000 included HK\$24,850,000, which was denominated in Hong Kong dollars; HK\$407,000 which was denominated in US dollars and HK\$110,955,000 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 rate between Renminbi and Hong Kong dollar/US dollar was 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.

Borrowings and banking facilities

As at 31st December, 2004, the Group had bank borrowings of HK\$79,185,000 which was denominated in Renminbi (notes 11 and 12). As at 31st December, 2004, the Group had bills payable of HK\$242,279,000 which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of the Group of HK\$62,482,000 which was also denominated in Renminbi.

As at 31st December, 2004, the Group maintained a gearing ratio of approximately 24%. This is based on the division of the total amount of bank loans by shareholders' equity as at 31st December, 2004. The Directors considered that the gearing ratio as at 31st December, 2004 was healthy, taking into account of the scale of operations of the Group.

Commitments

As at 31st December, 2004, the Group had no significant outstanding contracted capital commitments (note 14), as well as operating lease commitments of approximately HK\$793,000.

Contingent liabilities

As at 31st December, 2004, the Group had no material contingent liabilities.



Remuneration Policies and Share Option Scheme

The Group incurred total salaries and other remunerations of approximately HK\$6,072,000 with an average number of about 600 staff during the six months ended 31st December, 2004.

Remuneration packages comprised salary, mandatory provident fund and year end bonus based on individual merits. A share option scheme (the "Share Option Scheme") was adopted by the Company. During the six months period ended 31st December, 2004, no options were granted to the relevant participants under the Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st December, 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 31st December, 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 31st December, 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	28,938,000	6.86%
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 "Directors' and Chief Executives' Interests in Securities" above, at no time during the six months ended 31st December, 2004 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 31st December, 2001, the Company adopted the Share Option Scheme, the principal terms of which are set out in the Company's Annual Report 2004.

Details of the movements of the outstanding share options granted under the Share Option Scheme of the Company during the period under review were as follows:

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 1st July, 2004	Granted during the period	Outstanding as at 31st December, 2004			
<i>Directors:</i>						
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
<i>Employees:</i>						
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			

Note:

1. No option has been exercised, lapsed and cancelled during the six months ended 31st December, 2004.
2. Since no option has been exercised during the six months ended 31st December, 2004, the weighted average closing price immediately before the exercise date (if exercised) is not applicable.
3. Since no option was granted during the six months ended 31st December, 2004, the closing price immediately before the date of options granted is not applicable.

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

The Company did not redeem any of its listed securities during the six months ended 31st December, 2004. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 31st December, 2004.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period for the six months ended 31st December, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except for Mr. Lam Ming Yung, an independent non-executive director, is not appointed for any specific terms as he is subject to retirement by rotation in accordance with the Company's Articles of Association.



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MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Company had 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 during the six months ended 31st December, 2004.

AUDIT COMMITTEE

The Audit Committee comprises Mr. Lam Ming Yung, Mr. Zhang Shaosheng and Mr. Wong Chi Wai, 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 auditing, internal control and financial reporting matters including review of the unaudited interim accounts of the Group for the six months ended 31st December, 2004.

On behalf of the Board
Wu Shaoning
Chairman

Hong Kong, 29th March, 2005