

# 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 2005.

## PRINCIPAL ACTIVITIES

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

An analysis of the principal activities and geographical locations of the operations of the Group for the year ended 30 June 2005 is set out in Note 4 to the accounts.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2005 are set out in the consolidated income statement on page 26 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 2005 (2004: Nil) and recommend that the retained profit of approximately HK\$186,326,000 as at 30 June 2005 be carried forward.

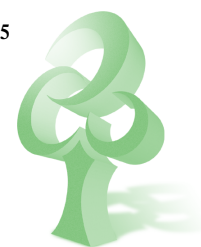
## SHARE CAPITAL

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 2005, the Company’s reserve available for distribution to shareholders amounted to approximately HK\$88,859,000 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\$21,218,000, 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.



# Report of the Directors

## 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 2005 are set out in Note 18 to the accounts.

## PENSION SCHEMES

Details of the Group's pension schemes for the year ended 30 June 2005 are set out in Note 10 to the accounts.

## CONNECTED TRANSACTIONS

During the year ended 30 June 2005, 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").

## 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:*

Mr. Lam Ming Yung

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

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

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

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



# Report of the Directors

## **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.

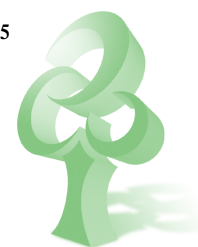
Mr. Lam Ming Yung, being an Independent Non-executive Director of the Company, has entered into a service agreement with the Company for a term of two years commencing on 15 November 1999 and shall continue thereafter unless and until terminated by either party giving to the other not less than three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

Mr. Zhang Shaosheng and Mr. Wong Chi Wai, both being the Independent Non-executive Directors of the Company, have each entered into a letter of appointment with the Company for continuously appointed for another one-year term expiring on 9 August 2006 and 26 September 2006 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.

## **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

Biographical details of Directors and senior management of the Group are set out on pages 14 to 16.



## Report of the Directors

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2005, 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*

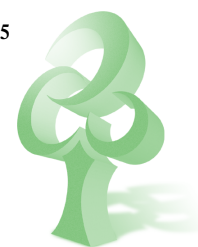
Name of Director	Number of ordinary shares			Total	Approximate percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. Wu Shaoning	182,000,000	–	–	182,000,000	43.17%

#### *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 2005
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.



# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2005, 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	Approximate percentage of issued share capital
Mr. Tung Fai	Beneficial owner	26,700,000	6.33%
Atlantis Investment Management Ltd. A/C Atlantis China Fund	Investment manager	22,000,000	5.22%

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

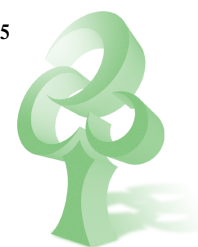
Other than as disclosed under the headings "Directors' and Chief Executives' Interests in Securities" above and "Share Option Scheme" below, at no time during the year was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or 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



## Report of the Directors

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 2004	Granted during the year	Exercised/ Lapsed/ Cancelled during the year	Outstanding as at 30 June 2005			
<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:* Since no option has been exercised during the year ended 30 June 2005, the weighted average closing price immediately before the exercise date (if exercised) is not applicable.



# Report of the Directors

## **MAJOR SUPPLIERS AND CUSTOMERS**

During the year, the respective percentage of purchases attributable to the Group's five largest suppliers combined and the turnover attributable to the Group's five largest customers combined accounted for less than 30% of the total value of Group purchases and total Group turnover.

## **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 2005. 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 was incorporated.

## **CODE OF BEST PRACTICE**

The Company had complied throughout the financial year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in force prior to 1 January 2005, which remained applicable to disclosure in annual reports in respect of accounting periods commencing before 1 January 2005 under the transitional arrangements, 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.

The Code of Best Practice was replaced by the Code of Corporate Governance Practices (the "CCGP") as set out in Appendix 14 of the Listing Rules which has become effective for accounting periods commencing on or after 1 January 2005. Appropriate actions are being taken by the Company for complying with the CCGP.

## **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 year ended 30 June 2005.



# Report of the 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**

The audit committee (the “Audit Committee”) comprises Mr. Lam Ming Yung (Chairman), Mr. Zhang Shaosheng and Mr. Wong Chi Wai, being 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 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 2005 and up to the date of this report.

## **AUDITORS**

PricewaterhouseCoopers resigned as one of the joint auditors of the Group on 17 August 2004. CCIF CPA Limited, the remaining joint auditors, remained in office as auditors of the Group following the resignation of PricewaterhouseCoopers, pursuant to a resolution passed at the extraordinary general meeting held on 24 September 2004.

The accounts have been audited by CCIF CPA Limited who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

**Wu Shaoning**

*Chairman*

Hong Kong, 25 October 2005