China Agrotech Holdings Limited

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

Annual Report 2009

Nitrogenous fertilizer

Phosphorous fertilizer

Potash fertilizer

Compound fertilizer

Pesticides

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Corporate Information

EXECUTIVE DIRECTORS

Wu Shaoning, *Chairman and Chief Executive Officer*
Yang Zhuoya, *Managing Director*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lam Ming Yung
Zhang Shaosheng
Wong Chi Wai, *CPA, FCCA*

COMPANY SECRETARY

Tong Hing Wah, *CPA, FCCA*

QUALIFIED ACCOUNTANT

Tong Hing Wah, *CPA, FCCA*

AUTHORISED REPRESENTATIVES

Wu Shaoning
Tong Hing Wah, *CPA, FCCA*

AUDIT COMMITTEE

Wong Chi Wai, *CPA, FCCA*
Lam Ming Yung
Zhang Shaosheng

REMUNERATION COMMITTEE

Wong Chi Wai, *CPA, FCCA*
Zhang Shaosheng
Wu Shaoning

AUDITORS

CCIF CPA Limited

PRINCIPAL BANKERS

Bank of China
Industrial and Commercial Bank of China
Agricultural Bank of China
China Construction Bank
China Merchants Bank
Bank of Communications
China Everbright Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Trustee (Cayman) Limited
PO Box 484, HSBC House
68 West Bay Road
Grand Cayman, KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2706, 27th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Five Years Financial Summary

	Years ended 30 June				
	2005 *HK$'000*	2006 *HK$'000*	2007 *HK$'000*	2008 *HK$'000*	**2009** ***HK$'000***
Turnover	1,640,708	2,286,255	2,552,044	2,894,984	**3,178,420**
Cost of sales	(1,525,180)	(2,122,132)	(2,317,068)	(2,608,179)	**(2,966,047)**
Gross profit	115,528	164,123	234,976	286,805	**212,373**
Valuation gains/(losses) on investment properties	–	818	5,064	(9,594)	**595**
Other income	1,467	18,596	24,682	41,999	**44,767**
Distribution costs	(30,412)	(37,618)	(74,231)	(98,335)	**(76,757)**
Administrative expenses	(42,647)	(58,373)	(67,235)	(73,792)	**(57,650)**
Other expenses	(15,164)	(3,330)	(6,026)	(1,222)	**(9,790)**
Write down of inventories	–	–	–	–	**(24,510)**
Loss on disposals of subsidiaries	–	–	–	–	**(12,226)**
Profit from operations	28,772	84,216	117,230	145,861	**76,802**
Finance costs	(9,550)	(17,490)	(31,513)	(43,803)	**(51,069)**
Profit before taxation	19,222	66,726	85,717	102,058	**25,733**
Income tax	(1,486)	(6,048)	(8,839)	(15,788)	**(13,816)**
Profit for the year	17,736	60,678	76,878	86,270	**11,917**
Attributable to:					
Equity shareholders of the Company	21,511	61,627	80,592	82,423	**11,067**
Minority interests	(3,775)	(949)	(3,714)	3,847	**850**
	17,736	60,678	76,878	86,270	**11,917**

	As at 30 June				
	2005 *HK$'000*	2006 *HK$'000*	2007 *HK$'000*	2008 *HK$'000*	**2009** ***HK$'000***
Total non-current assets	234,772	229,276	228,180	235,729	**230,569**
Total current assets	789,349	1,208,902	1,880,139	2,115,613	**2,301,639**
Total current liabilities	(679,976)	(1,013,132)	(1,545,928)	(1,654,745)	**(1,824,765)**
Net current assets	109,373	195,770	334,211	460,868	**476,874**
Total assets less current liabilities	344,145	425,046	562,391	696,597	**707,443**
Non-current liabilities	(2,817)	(971)	–	–	**–**
Net assets	341,328	424,075	562,391	696,597	**707,443**
Total equity attributable to equity shareholders of the Company	334,212	417,762	555,967	678,950	**687,184**
Minority interests	7,116	6,313	6,424	17,647	**20,259**
Total equity	341,328	424,075	562,391	696,597	**707,443**

Chairman's Statement

I am pleased to present to the shareholders the annual results of China Agrotech Holdings Limited ("China Agrotech" or the "Company") and its subsidiaries (collectively the "Group") for the year ended 30 June 2009 for their consideration.

TURNOVER AND PROFITS

For the year ended 30 June 2009, the consolidated turnover of the Group was approximately HK$3,178,420,000 (2008: HK$2,894,984,000), representing a growth of approximately 10%; and the profit attributable to equity shareholders of the Company was approximately HK$11,067,000 (2008: HK$82,423,000), representing a decrease of approximately 87%. Excluding the effect from the valuation gains/(losses) on investment properties and write-down of inventories, net profit was approximately HK$34,982,000 (2008: HK$92,017,000), representing a decrease of approximately 62%.

BUSINESS REVIEW

The combined impact of the global financial turmoil and the sharp fall in commodity prices explained for a very difficult operating environment during the year under review. Leveraging on its extensive experience in management and marketing, China Agrotech managed to capitalize on the opportunities arising in the market during the first half of the year and then switched to a prudent operation mode during the second half. As a result, annual turnover reached HK$3.18 billion, representing a moderate growth of around 10% over the previous year. However, market factors impacted the Group's performance with an obvious fall in gross margins averaging at approximately 6.7% (2008: approximately 9.9%). China Agrotech survived the dramatic change in the market and consolidated its footing.

Agricultural resources industries, both at home and abroad, fell victim to the financial crisis that emerged since the third quarter of 2008. During the first half of 2009, the overcapacity of fertilizers coupled with the weak demand gave rise to a further shrinkage of the market and, in turn, a falling trend in product prices. Under such harsh operating environment, some overstocking and cash-strapped competitors were eliminated.

To place viability as its top priority, China Agrotech decisively adjusted its strategy by minimizing inventory level, promoting sales at thin margin and increasing liquidity, and eventually weathered a tough year. During the financial year under review, thanks to the successful implementation of the centralized purchase and distribution strategy, the Group's distribution network demonstrated the effect of consolidation under the difficult environment and contributed to the steady growth of the Group's turnover. During the year, as the prices of agricultural resources products in general saw substantial fall, sales promotion with thin margins became our prime target. Amid the price fluctuations, the Group was flexible in pricing with a view to shortening stock turnover and reaping fast profits. As a result, aggregate sales volume of fertilizers increased by approximately 20% to 1.06 million tonnes (2008: 0.88 million tonnes). Given the margin squeeze, the rise in turnover co-existed with the inevitable fall in gross margin. During the year under review, the Group recorded a gross profit of approximately HK$212 million (2008: approximately HK$287 million), representing a decline of approximately 26% over the previous year. Overall gross profit margin also fell from approximately 9.9% the last year to approximately 6.7% this year. Average gross profit margin of agricultural resources products that made up 80% of total turnover fell from approximately 10.7% the last year to approximately 7.3% this year. The decline in overall gross profit was a major cause to the significant fall of net profit attributable to shareholders for the year.

The Group has initiated the modification of its sales strategy in relation to individual products since 2008 when the PRC government launched the macro-economic austerity measures. For nitrogenous fertilizer, owing to its fluctuation in prices and thin margin, the Group reduced sales in this category so as to shun its downside risk. For phosphorous fertilizer, potash fertilizer and compound fertilizer, as the Group has actively developed its supply and sales channels over the years and its distribution network generated further economic benefits, sales of these products have been on the rise. Their contributions to turnover rose significantly as well.

Chairman's Statement

CORPORATE STRATEGIES AND PROSPECTS

Despite prices of various fertilizers are currently at a relatively low level, price trend for next year depends on a number of factors which include the speed of the global economic recovery and the demand for foodstuff. However, the PRC government has been working on deepening the agricultural reform, increasing farmers' income and stepping up its efforts to address the "three rural (rural areas, farmers and agriculture) issues". In particular, in order to halt the falling trend of fertilizer prices, the central government once took such concrete measures as raising the export tax rebates. More importantly, the State Council has proposed the establishment of a national fertilizer reserve as well as devised long-term policies to support backbone enterprises in the fertilizer industries stockpiling ammonium phosphate and urea. All these prove to benefit the agricultural resources enterprises to a large extent.

Notwithstanding the signs that the global economy and the agricultural resources market have shown marked improvement over the months, the Group continues to strengthen its risk management and will take a prudent approach in the hope of steering clear of adversities. Besides, overcapacity has prompted a gradual consolidation in the domestic fertilizer industries. The Group also takes this opportunity to effect a restructuring to reinforce its core competitiveness by consolidating existing businesses while setting new development direction.

Looking forward, in addition to the on-going pursuit of its centralized purchase and distribution policy and optimization of product mix, the Group will actively strengthen strategic cooperation with upstream brandname suppliers to further explore quality resources thereby increasing its stability and sustainability. We are optimistic about the long-term development of the Group and will better position ourselves to take on the challenges and opportunities arising in the year to come.

APPRECIATION

I would like to take this opportunity to express my gratitude to all our shareholders, members of the Board, the senior management and staff of all levels for their dedication and efforts over the years. In addition, on behalf of the Board, I would also like to express our most sincere thanks to all of our customers, suppliers, scientific research units and business partners for their continuous support.

WU SHAONING
Chairman

Hong Kong, 23 October 2009

Management Discussion and Analysis

OVERALL RESULTS

For the year ended 30 June 2009, the Group's consolidated turnover was approximately HK$3,178,420,000 (2008: HK$2,894,984,000) and net profit attributable to equity shareholders of the Company was approximately HK$11,067,000 (2008: HK$82,423,000), representing a growth of about 10% and a decline of about 87% respectively as compared to those of the previous financial year. Net profit, excluding the impact from the valuation gains/(losses) on investment properties and write-down of inventories, was approximately 34,982,000 (2008: HK$92,017,000), representing a decrease of 62%.

The Group's business can be divided into two categories, namely agricultural resources operation and trading of non-agricultural resources products. Agricultural resources operation includes the manufacturing and selling, purchase and distribution of agricultural resources products, as well as the provision of plant protection and consultancy services for the related products.

The turnover of the agricultural resources operation and trading of non-agricultural resources products is analysed by product segments as follows:

	2009		2008	
	Turnover *HK$'000*	Percentage of the total turnover	Turnover *HK$'000*	Percentage of the total turnover
Agricultural resources operation				
nitrogenous fertilizer	416,646	13%	677,032	23%
phosphorous fertilizer	422,243	13%	299,614	10%
potash fertilizer	466,553	15%	202,186	7%
compound fertilizer	827,317	26%	519,988	18%
pesticides	402,902	13%	368,876	13%
Agricultural resources products (subtotal)	2,535,661	80%	2,067,696	71%
Trading of non-agricultural resources products	642,759	20%	827,288	29%
Total	3,178,420	100%	2,894,984	100%

Aggregate sales volume of fertilizers, including nitrogenous fertilizer, phosphorous fertilizer, potash fertilizer and compound fertilizer, increased by about 20% from approximately 880,000 tonnes last year to approximately 1,060,000 tonnes this year. The aggregate turnover of fertilizers for this year was approximately HK$2.133 billion, representing a growth of about 26% as compared to approximately HK$1.699 billion last year.

For pesticides, turnover increased by approximately 9% from approximately HK$369 million last year to approximately HK$403 million this year.

Turnover for the trading of non-agricultural resources products decreased from approximately HK$827 million last year to approximately HK$643 million this year.

Management Discussion and Analysis

Gross profit for the year amounted to approximately HK$212,373,000 and net profit (excluding the impact from the valuation gains/(losses) on investment properties and write-down of inventories) was approximately HK$34,982,000, representing a decline of approximately 26% and 62% respectively as compared to those of the previous year. Gross profit margin in general decreased from approximately 9.9% last year to approximately 6.7% this year. The overall drop of gross profit margin was mainly attributable to the rapid drop in market prices of agricultural resources products during the year as a consequence of the outbreak of worldwide financial crises in the third quarter of 2008.

AGRICULTURAL RESOURCES OPERATION

(1) Nitrogenous fertilizer

Being the most commonly used fertilizer, the supply of nitrogenous fertilizer outstrips its demand, characterizing the trading environment as volume-oriented with thin gross profit margins. During the year under review, the trading profit margin was even thinner in the market and the Group recorded a gross profit margin of approximately 2.8% (2008: 3.7%). Therefore, in order to better allocate the Group's working capital resources and minimize operational risks, the Group reduced the trading of nitrogenous fertilizer and therefore, the sales volume decreased to approximately 230,000 tonnes (2008: 360,000 tonnes) while turnover dropped by 38% to HK$417 million (2008: HK$677 million).

(2) Phosphorous fertilizer

Although the gradual increase in the production capacity of phosphorous fertilizer in the PRC has basically met the market demand, the supply of phosphorous fertilizer is becoming scarce. The Group leveraged on the advantage of having its own phosphorous fertilizer plant and adjusted the product mix of phosphorous fertilizer in response to market demand. As a result, the Group was able to boost its sales volume of phosphorous fertilizer to approximately 330,000 tonnes (2008: 220,000 tonnes), push the turnover to considerably rise by 41% to HK$422 million (2008: HK$300 million). However, the gross profit margin decreased from approximately 12.7% last year to approximately 7.5% this year due to the drop in market price of agricultural resources products during the year.

(3) Potash fertilizer

Being a scarce resource, more than 70% of potash fertilizer in the PRC is imported. During the year, the Group continued to leverage on the advantage of centralised purchase and its own network to continue the expansion of the operation of potash fertilizer, especially those from Russia. As the market price gradually drop during the year, the Group adopted its strategy of minimizing storage to avoid operational risks. Hence, sales volume of potash fertilizer for this year reached approximately 130,000 tonnes, increased by approximately 90% as compared with last year, while turnover dramatically increased by 131% to approximately HK$467 million (2008: HK$202 million). However, gross profit margin decreased from approximately 7.6% last year to approximately 5.1% this year.

(4) Compound fertilizer

The Group provides specific compound fertilizer for different crops through production from its own plant and through procurement. During the year, the Group increased the production and distribution of compound fertilizer products to accommodate market demand. Sales volume increased from approximately 230,000 tonnes last year to approximately 370,000 tonnes this year. Turnover increased by approximately 59% to approximately HK$827 million (2008: HK$520 million), while gross profit margin decreased from approximately 12.6% last year to approximately 8.2% this year due to market factors.

Management Discussion and Analysis

(5) Pesticides

For pesticides, the Group has a large variety of high-value-added pesticide products which are developed through collaboration with different research institutes. Those pesticide products supplied to the market are either manufactured by the Group's own plants or through procurement and distribution. During the year, turnover increased by approximately 9% to approximately HK$403 million (2008: HK$369 million) because of the Group's increase in sales of lower margin products. Coupled with the effect of drop in market prices, the average gross profit margin decreased from approximately 21.1% last year to approximately 12.4% this year.

TRADING OF NON-AGRICULTURAL RESOURCES PRODUCTS

For the trading of non-agricultural resources products, orders were reduced due to worldwide economic downturn, hence turnover and gross profit decreased by 22% to approximately HK$643 million (2008: HK$827 million) and 58% to HK$27.2 million (2008: HK$65.3 million) respectively. Gross profit margin also decreased from approximately 7.9% last year to approximately 4.2% this year due to rapid drop in market prices of commodities and resources products during the year.

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 30 June 2009, cash and bank balances and restricted bank deposits were approximately HK$418,327,000 of which approximately HK$3,475,000, approximately HK$412,187,000, and approximately HK$2,665,000 were denominated in Hong Kong dollars, Renminbi and US dollars respectively.

With respect to foreign exchange exposure, as the Group's earnings and borrowings are primarily denominated in Renminbi and the exchange rates between Renminbi and Hong Kong dollar/US dollar remained steady during the year under review, its exposure to foreign exchange rate fluctuations is insignificant. During the year under review, the Group had not used any financial instruments for hedging purposes.

Borrowings and banking facilities

As at 30 June 2009, the Group had bank borrowings of approximately HK$304,433,000 (approximately HK$300,488,000 was denominated in Renminbi and approximately HK$3,945,000 was denominated in US dollars) bearing interest at rates ranging from 3.1% to 8.96% per annum, of which approximately HK$53,880,000 was secured by certain trade receivables, inventories and investment properties of the Group, and approximately HK$250,553,000 was guaranteed by a director of the Company and third parties and properties put up by certain minority shareholders.

At as 30 June 2009, the Group had bills payable of approximately HK$1,019 million which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of approximately HK$306 million which was also denominated in Renminbi.

As at 30 June 2009, the Group's gearing ratio remained at approximately 44%. This was based on the division of bank borrowings by total equity attributable to equity shareholders of the Company as at 30 June 2009. The Directors, taking into account of nature and scale of operations of the Group, considered that the gearing ratio as at 30 June 2009 was healthy.

Management Discussion and Analysis

Commitments

As at 30 June 2009, the Group had no outstanding contracted capital commitments. As at 30 June 2009, the Group had operating lease commitments of approximately HK$15,424,000.

Contingent liabilities

As at 30 June 2009, the Group had no material contingent liabilities.

REMUNERATION POLICIES AND SHARE OPTION SCHEME

The Group incurred expenditure on salaries and other remunerations of approximately HK$29 million in total with an average workforce of about 1,000 during the year ended 30 June 2009.

Remuneration packages comprise salary, mandatory provident fund and year-end bonus based on individual merits. A share option scheme (the "Scheme") was adopted by the Company pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31 December 2001. The Scheme limit was refreshed pursuant to a resolution passed at the extraordinary general meeting of the Company held on 11 February 2009. During the year ended 30 June 2009, no option was granted (2008: nil). On 27 July 2009, options in respect of 48,970,000 shares of the Company were granted to the relevant participants under the Scheme.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wu Shaoning

aged 44, is the Chairman, Chief Executive Officer, founder of the Group and a member of the Remuneration Committee. He graduated from the University of Xiamen with a bachelor's degree in politics and economics. Thereafter, he attended the Hong Kong Macau Economics Study Programme at the University of Hong Kong for one year and obtained a master's degree in economics from the University of Xiamen. Mr. Wu has over 17 years of experience in trading business and the agricultural chemicals industry in Mainland China. Mr. Wu has been nominated as the director of 中國農作物化控專業委員會 (the Professional Crop Chemical Control Committee of China) in 1999. He was also elected as the deputy chairman of 福建省農業產業化龍頭企業協會 (the Fujian Agricultural Industrialisation Association) in 2004. Mr. Wu is responsible for the overall management and operation of the Group, as well as its strategic planning and business development.

Mr. Yang Zhuoya

aged 44, is the Managing Director and co-founder of the Group. He holds a doctorate degree in agricultural chemistry and plant nutrition. He has been nominated as the standing director of 福建省土壤肥料學會 (Soil and Fertilizer Academy of Fujian Province) for year 2000. Mr. Yang joined the Group in 1998 and is primarily responsible for the Group's product research and development, as well as overseeing its production operations.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Ming Yung

aged 45, is an Independent Non-executive Director and a member of the Audit Committee. He graduated from the School of Law of Shanghai Eastern Chinese College of Politics and Jurisprudence in 1986 and was awarded the degree of bachelor of law. Mr. Lam started practising law in 1987 in Fujian Province in Mainland China, and moved to Hong Kong in mid-1993. He was registered as a foreign lawyer with the Hong Kong Law Society in 1995, and is now practicing as a senior legal consultant of PRC Corporate Securities in the Hong Kong office of Sidley Austin Brown & Wood.

Mr. Zhang Shaosheng

aged 58, is an Independent Non-executive Director, a member of the Audit Committee and Remuneration Committee. He is a professor of the College of Plant Protection of Fujian Agriculture and Forestry University. Mr. Zhang graduated from Fujian Agricultural College with a bachelor's degree in agriculture specialized in plant protection in 1975 and has 34 years of experience in the teaching of plant protection.

Mr. Wong Chi Wai

aged 38, is an Independent Non-executive Director, the Chairman of the Audit Committee and the Chairman of the Remuneration Committee. He graduated from the Hong Kong Polytechnic University with a bachelor degree in accountancy in 1994. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. He has over 15 years of experience in auditing, accounting and financial management. Mr. Wong currently holds a senior position in a bank in Hong Kong.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Tong Hing Wah, Raymond

aged 38, is the chief financial officer and company secretary of the Group. He graduated from the Hong Kong Polytechnic University with a bachelor degree in accountancy. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. He has over 16 years of experience in auditing, accounting and financial management. Mr. Tong joined the Group in 1999 and is primarily responsible for the Company's corporate finance, financial reporting and regulatory compliance.

Mr. Tse Wai Wang, William

aged 46, is the chief operating officer of the Group. He graduated from Murdoch University with a master degree in business administration. Mr. Tse has over 20 years of experience in investment, corporate management, mergers and acquisition, market development and asset management. He joined to Group in September 2008 and is responsible for the Group's operation, investment planning and business development.

Ms. Yeh Jing Ping

aged 58, is the finance supervisor of the Group. She graduated from Fuzhou University with a bachelor degree in commerce and is also a senior qualified accountant in Mainland China. She has over 25 years' experience in finance and accounting. Ms. Yeh joined the Group in June 1998 and is responsible for all finance and accounting matters of the Group's Mainland China subsidiaries.

Mr. Zhao Bo Jian

aged 40, is the business development manager of the Group. He graduated from Central China Normal University with a degree in arts. Mr. Zhao has over 17 years of experience in brand name management and business development. He joined the Group in 2002 and is responsible for brand name management and business development of the Group's agricultural resources trading business.

Ms. Chen Xiao Fang

aged 45, is the international trading manager of the Group. She graduated from Suzhou University (蘇州大學) with a bachelor degree in silk textile engineering design (絲織工程設計). Thereafter, she studied business administration at The University of International Business and Economics (中國對外經貿大學) and obtained a master degree. Ms. Chen is also a qualified engineer and management consultant in Mainland China, and has over 25 years of experience in information management, human resources management, marketing strategies and international trading. She joined the Group in March 2004.

Mr. Wu Rong Song

aged 36, is the manager of the Group's capital management centre. He graduated from the School of Business and Economics of Fujian Agricultural University (福建農業大學經貿學院) with a bachelor degree in monetary banking. Mr. Wu is also a qualified economist in Mainland China and has over 16 years of experience in financial management. He joined the Group in March 2003.

Mr. Huang Zhong Geng

aged 42, is the production manager of the Group. He graduated from Fuzhou University (福州大學) with a bachelor degree in chemical engineering (precise chemical engineering). Thereafter, he studied at Heriot-Watt University of the United Kingdom as a part-time student for two years where he obtained a master degree in business administration. He is a senior qualified engineer in Mainland China and has over 21 years of experience in chemical engineering design and technical development. He joined the Group in August 2004.

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 2009.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) the trading of fertilizers, pesticides and other agricultural resources products ("Trading operation"); (ii) the manufacturing and selling of plant growth regulatory products, pesticides and fertilizers ("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 of the operations of the Group for the year ended 30 June 2009 is set out in Note 12 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2009 are set out in the consolidated income statement on page 27 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 business conducted in Mainland China.

DIVIDEND

The Directors have resolved not to recommend the payment of any final dividend for the year ended 30 June 2009 (2008: Nil) and recommend that the retained profits of approximately HK$384,070,000 as at 30 June 2009 be carried forward.

SHARE CAPITAL

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

RESERVES AND RETAINED PROFITS

Details of the movements in the reserves of the Group and of the Company during the year are set out in the statement of change in equity and Note 28 to the financial statements respectively.

As at 30 June 2009, the Company's reserve available for distribution to shareholders amounted to approximately HK$87,580,000 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$114,391,000 and contributed surplus of approximately HK$11,527,000, less accumulated losses of approximately HK$38,338,000, 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 13 to the financial statements.

Report of the Directors

SUBSIDIARIES

Details of the Company's subsidiaries as at 30 June 2009 are set out in Note 17 to the financial statements.

PENSION SCHEMES

Details of the Group's pension schemes for the year ended 30 June 2009 are set out in Note 31 to the financial statements.

CONNECTED TRANSACTIONS

During the year ended 30 June 2009, 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").

FIVE YEARS 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 page 3.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors:

Mr. Wu Shaoning *(Chairman and Chief Executive Officer)*
Mr. Yang Zhuoya *(Managing Director)*

Non-executive Director:

Mr. Michael Wu Chun Wah (resigned on 12 December 2008)

Independent Non-executive Directors:

Mr. Lam Ming Yung
Mr. Zhang Shaosheng
Mr. Wong Chi Wai

In accordance with Articles 86 and 87 of the Company's Articles of Association, Mr. Wu Shaoning and Mr. Lam Ming Yung will retire at the forthcoming annual general meeting and, being eligible, offer themselves 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, 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, each entered into a letter of appointment with the Company for continuously appointed for another one-year term expiring on 9 August 2010 and 26 September 2010 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 10 to 11.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2009, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Listing Rules were as follows:

Long positions in shares and underlying shares of the Company

		Number of ordinary shares				
Name of Director	Nature of interests	Personal interests	Family interests	Corporate interests	Total	Approximate percentage of issued share capital
Mr. Wu Shaoning	Interests in issued shares	186,200,000	–	–	186,200,000	38.02%
	Interests in underlying shares	58,800,000 (Note)	–	–	58,800,000	12.00%

Note: This represents the interests in underlying shares in respect of unlisted warrants. Further details of which are set out in the section headed "Unlisted Warrants".

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 2009, so far as is known to the Directors, no 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.

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.

Report of the Directors

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(s)") 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 ("Scheme Mandate"). Pursuant to a resolution passed at the extraordinary general meeting of the Company held on 11 February 2009, a refreshment of the Scheme Mandate was approved. The total number of shares to be allotted and issued pursuant to the grant or exercise of the options under the Scheme shall not exceed 10% of the total number of shares in issue as at 11 February 2009. 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.

Report of the Directors

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 participants	Balance as at 1 July 2008	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year (Note 1)	Outstanding as at 30 June 2009	Date of grant	Exercisable period	Exercise price per share HK$
	Number of shares in respect of options							
Employees:								
In aggregate	800,000	–	–	–	800,000	01/12/2003	01/01/2004 – 30/12/2011	0.55

Notes:

1. No option has been lapsed or cancelled during the year ended 30 June 2009.

2. Since no option has been exercised during the year ended 30 June 2009, the weighted average closing price immediately before the exercise date is not applicable.

On 27 July 2009, the Company granted 48,970,000 shares options to individual staff under the Scheme.

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.

UNLISTED WARRANTS

On 7 September 2007, the Company issued 84,000,000 warrants at the issue price of HK$0.03 per warrant pursuant to a subscription agreement dated 19 August 2007.

The warrantholders have the right to exercise the subscription rights attaching to the warrants, in whole or in part, at the subscription price of HK$1.00 per subscription share at any time within 2 years commencing from the date of issue of the warrants. The warrants are not listed on the Stock Exchange or any other stock exchanges. The net proceeds of approximately HK$2,446,000 from the issue of the warrants was used as general working capital. No warrant was exercised during the year.

Subsequent to 30 June 2009, a total of 58,900,000 warrants were exercised and an aggregate of 58,900,000 new shares of the Company were issued to the warrantholders in August and September 2009. The remaining 25,100,000 unexercised warrants were expired and cancelled on 7 September 2009.

Report of the Directors

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 2009. 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.

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 2009.

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.

POST BALANCE SHEET EVENTS

(i) On 4 June 2009, the Company entered into a share placing agreement with Excalibur Securities Limited (the "Placing Agent") whereby the Company would place, through the Placing Agent, a maximum of 42,900,000 new shares of the Company to independent placees at a price of HK$0.70 per placing share of the Company. The placing of new shares in an aggregate principal amount of HK$30,030,000 was completed on 10 August 2009. The net proceeds from the placing of approximately HK$29.5 million will be used as general working capital of the Group.

On 4 June 2009, the Company entered into a convertible bonds placing agreement with the Placing Agent whereby the Company would place and the Placing Agent would procure independent subscribers for subscription of the 3% coupon convertible bonds of the Company ("Convertible Bonds") in an aggregate maximum principal amount of HK$29,970,000. The holders of the Convertible Bonds are entitled to exercise the conversion rights attaching to the Convertible Bonds, in whole or in part, at the conversion price of HK$0.90 per share at any time within 2 years commencing from the date of issue of the Convertible Bonds, to convert the Convertible Bonds into ordinary shares of the Company. The placing of Convertible Bonds in an aggregate principal amount of HK$29,970,000 was completed on 24 July 2009. The net proceeds from the placing of approximately HK$29.8 million will be used for general working capital of the Group. The Convertible Bonds are not listed on the Stock Exchange or any other stock exchanges.

Details of the placing of new shares and Convertible Bonds are set out in the Company's announcement dated 5 June 2009.

Report of the Directors

(ii) New shares of the Company were issued in August and September 2009 upon exercise of subscription rights attaching to 58,900,000 unlisted warrants to subscribe for 58,900,000 new shares of the Company at an initial subscription price of HK$1.0 per share. The remaining 25,100,000 unexercised warrants were expired and lapsed on 7 September 2009.

Details of other post balance sheet events are set out in Note 36 to the financial statements.

AUDIT COMMITTEE

The Company's audit committee (the "Audit Committee") comprises Mr. Wong Chi Wai (as Chairman), Mr. Lam Ming Yung and Mr. Zhang Shaosheng, 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 financial statements and the audited annual financial statements of the Group during the year.

REMUNERATION COMMITTEE

The Board of the Company has established a remuneration committee (the "Remuneration Committee"). The Remuneration Committee, currently comprising Independent Non-executive Directors namely, Mr. Wong Chi Wai and Mr. Zhang Shaosheng and Executive Director namely, Mr. Wu Shaoning, is responsible for advising the Board on the remuneration policy and framework of the Company's directors and senior management, as well as review and determine the remuneration packages of directors and senior management with reference to the Company's objectives from time to time.

AUDITORS

The financial statements 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, 23 October 2009

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance. It is believed that high standards of corporate governance provide a framework and solid foundation for promoting high standards of accountability, transparency and responsibility to our shareholders.

The Board considers that the Company has complied throughout the year ended 30 June 2009 with the applicable provisions of the Code on Corporate Government Practices ("CG Code") as set out in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except that (i) there is no division of roles of chairman and chief executive officer that both offices are held by Mr. Wu Shaoning; and (ii) one of the Independent Non-executive Directors is not appointed for specific terms.

THE BOARD COMPOSITION AND BOARD PRACTICES

The Board is responsible for the oversight of the management of the Company's business and affairs of the organization with the objective of enhancing shareholder value including setting and approving the Company's strategic direction and planning, and all important matters such as interim and annual results, dividends, annual financial budget, business and operation plan etc., while delegating day-to-day operations of the Group to management. Besides, each member of the Board is expected to make a full and active contribution to the Board's affairs and ensure that the Board acts in the best interests of the Company and its shareholders as a whole.

As at 30 June 2009, the Board comprises five Directors, of whom two are Executive Directors, namely Mr. Wu Shaoning (Chairman and Chief Executive Officer) and Mr. Yang Zhuoya and three are Independent Non-executive Directors, namely Mr. Lam Ming Yung, Mr. Zhang Shaosheng and Mr. Wong Chi Wai.

The Board has maintained a balance of skills and experience appropriate for the requirements of the businesses of the Group. Its composition represents a mixture of management, accounts and finance, marketing, manufacturing and procurement with comprehensive experience in and exposure to diversified businesses. Each of Directors' respective biographical details is set out in the "Biographical Details of Directors and Senior Management" of this annual report. It is the opinion of the Directors that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company.

In compliance of Rule 3.10(1) of the Listing Rules, the Board currently comprises three Independent Non-executive Directors, namely Mr. Lam Ming Yung, Mr. Zhang Shaosheng and Mr. Wong Chi Wai. This exceeds the recommended best practices of the CG Code of having at least one-third of the Board being represented by Independent Non-executive Directors. Pursuant to paragraph 12B of Appendix 16 to the Listing Rules, each of the Independent Non-executive Directors has confirmed by an annual confirmation that he complied with the independence criteria set out in Rule 3.13. The Board considers that all the three Independent Non-executive Directors to be independent under these independence criteria and be capable to effectively exercise independent judgement in order to ensure that the interests of all shareholders of the Company have been duly considered. Amongst them, Mr. Wong Chi Wai has the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2). In addition, Mr. Tong Hing Wah, the Group's Chief Financial Officer, is a qualified accountant and is responsible for oversight of the Group's financial reporting procedures in compliance of Rule 3.24.

Corporate Governance Report

Moreover, the Independent Non-executive Directors take an active role in Board meetings, contribute to the development of strategies and policies and make sound judgement in various aspects. They will take lead when potential conflicts of interest arise. They are also members of various Board committees and devote sufficient amount of time and attention to the affairs of the Company. Thus, the Board considers the current board size as adequate for its present operations.

Besides, to the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship between the Directors and each of the Directors also does not have any direct or indirect material relationship with the Group.

During the year ended 30 June 2009, 4 regular Board meetings have been held. The attendance of each Director, on named basis and by category, at Board meetings and Board committee meetings during the year is set out below:

	Number of meeting attended/ Number of meeting held		
Directors	**Board**	**Remuneration Committee**	**Audit Committee**
Executive Directors			
Mr. Wu Shaoning *(Chairman and the Chief Executive Officer)*	9/9	1/1	–
Mr. Yang Zhuoya	9/9	–	–
Non-executive Director			
Mr. Michael Wu Chun Wah (resigned on 12 December 2008)	–	–	–
Independent Non-executive Directors			
Mr. Lam Ming Yung	5/9	–	3/3
Mr. Zhang Shaosheng	9/9	1/1	3/3
Mr. Wong Chi Wai	8/9	1/1	3/3

Directors can attend meetings in person or through telephone pursuant to Article 116(2) of the articles of association of the Company ("Articles"). The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director/committee member may request inclusion of items in the agenda.

Minutes of Board/committee meetings would be kept by the Company Secretary and shall open for inspection by Directors. Where Directors have a material or conflict of interests in any transaction discussed in the Board/committee meetings, it would not be dealt with by way of written resolutions. The Directors concerned could express views but would not be counted as part of the quorum and shall abstain from voting on the relevant resolutions.

In addition, to facilitate the decision-making process, the Directors are free to have access to the management for enquiries and to obtain further information, when required. The Directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. All Directors have unrestricted access to the Company Secretary who is responsible for ensuring that the Board/committee procedures are complied with, and for advising the Board/committee(s) on compliance matters.

Corporate Governance Report

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Since the full Board is involved in the appointment of new Directors, the Company has not established a Nomination Committee. The Board will take into consideration criteria such as expertise, experience, integrity and commitment when considering new director appointments.

In accordance with the Articles, all Directors are subject to retirement by rotation and re-election at annual general meetings of the Company. New Directors appointed by the Board during the year are required to retire and submit themselves for re-election at the first annual general meeting immediately following their appointments. Further, at each annual general meeting, one-third (if not a multiple of three, then the number nearest to but not less than one-third) of Director shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires.

RESPONSIBILITIES OF DIRECTORS

Upon acceptance of appointment, a new Director is provided with sufficient orientation package, including introduction to Group activities (when necessary), introduction into their responsibilities and duties, and other regulatory requirements, to ensure that he has a proper understanding of the business and his responsibilities as a Director of the Company.

Each of the Executive Directors, Mr. Wu Shaoning and Mr. Yang Zhuoya, has entered into a service agreement with the Company for an initial fixed term of ten years and three years respectively commencing from 15 November 1999, and shall continue thereafter unless and until terminated by either party by giving to the other not less than three months' notice in writing.

The Independent Non-executive Directors, Mr. Zhang Shaosheng and Mr. Wong Chi Wai, were appointed for a specific term of one year while Mr. Lam Ming Yung was not appointed for any specific term, but subject to retirement by rotation once every three years at annual general meetings of the Company in accordance with the Articles.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, the Company confirmed that all the Directors have complied with the required standard of dealings set out in the Model Code throughout the year ended 30 June 2009.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same person. The Company does not have a separate Chairman and Chief Executive Officer and Mr. Wu Shaoning currently holds both positions. The Chairman, Mr. Wu, is the founders and a substantial shareholder of the Group and has considerable industry experience. The Board is of the view that it is in the best interests of the Group to have a Chairman so that the Board, and in particular the Independent Non-executive Directors, can have the benefit of a Chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and management. He is also motivated to contribute to the growth and profitability of the Group. The Board also believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership, allows for more effective planning and execution of long-term business strategies and enhances the efficiency of decision-making process in response to the changing environment. The Board also believes that the present arrangement is beneficial to the Company and the shareholders as a whole.

COMMITTEES OF THE BOARD

Nomination Committee

According to the recommended best practices of the CG Code, the Company shall set up a nomination committee with a majority of the members thereof being Independent Non-executive Directors. However, the Company did not establish a nomination committee.

The Company has established a formal and transparent process for the Company in the appointment of new Directors and re-nomination and re-election of Directors at regular intervals. The selection of individuals to become Executive or Non-executive Directors are based on assessment of their professional qualifications and experience. The Board is responsible for determining the independence of each Independent Non-executive Director and conducting formal assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board provided that Directors cannot vote on the matters in which they have interests.

During the year and prior to the date of this report, there have no changes of the Directors except Mr. Michael Wu Chun Wah resigned as Non-executive Director of the Company with effect from 12 December 2008.

In accordance with the Articles, one-third of the Directors will retire from office at the Company's annual general meeting. In accordance with Articles 86 and 87 of the Articles, Mr. Wu Shaoning and Mr. Lam Ming Yung will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-elections. The Board recommended the re-appointment of the Directors standing for the aforesaid re-election.

Remuneration Committee

A remuneration committee of the Company (the "Remuneration Committee") was established on 1 July 2005 with written terms of reference in compliance of the code provision in B.1 of the CG Code. The terms of reference of the Remuneration Committee are available from the Company Secretary at any time. The Remuneration Committee currently comprises an Executive Director, namely, Mr. Wu Shaoning and two Independent Non-executive Directors, namely Mr. Zhang Shaosheng and Mr. Wong Chi Wai. Mr. Wong Chi Wai is the Chairman of the Remuneration Committee.

Corporate Governance Report

The duties of the Remuneration Committee includes making recommendations to the Board on the remuneration policy and structure of the Directors and senior management, approving the remuneration, determining the remuneration packages of all Directors and senior management and approving the compensation to Directors and senior management on termination or dismissal. The remuneration packages including basic salary, annual discretionary bonus, pension scheme, share option scheme and other benefit-in-kind such as private medical cover are commensurate with their performance, job nature and experience level. No Director was involved in deciding his own remuneration.

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence. The emoluments of the Directors are determined with reference to the Company's operating results, individual performance and the prevailing market rates. The Company has adopted a share option scheme on 31 December 2001 (the "Scheme") as an incentive to Directors and eligible employees, details of which are set out in the report of the directors and note 26 to the financial statements of this annual report.

The Remuneration Committee meets at least once a year. During the year, the Remuneration Committee has held a meeting on 7 August 2008.

The attendance of each member of the Remuneration Committee, on named basis and by category, at committee meetings during the year is set out in the section "The Board Composition and Board Practices" of this corporate governance report.

Audit Committee

An audit committee of the Company (the "Audit Committee") currently comprises of three members, all of whom are Independent Non-executive Directors. The members are Mr. Wong Chi Wai (the chairman of the committee), Mr. Lam Ming Yung and Mr. Zhang Shaosheng, all of whom are not involved in the day-to-day management of the Company. In accordance with the requirements of the CG Code, the terms of reference of the Audit Committee were revised on 28 December 2008 in terms substantially the same as the provisions set out in the CG Code. The terms of reference of the Audit Committee are available from the Company Secretary at any time.

The primary duties of the Audit Committee are to review and supervise the Company's financial reporting process. The Audit Committee is also responsible for reviewing the appointment and remuneration of auditors of the Company (the "Auditors") and any matters relating to the termination of, the appointment of and the resignation of the auditors. In addition, the Audit Committee also examines the effectiveness of the Company's internal controls, which involve regular reviews of the internal controls of various corporate structures and business processes on a continuous basis, the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function and their training programmes and budget, and takes into account their respective potential risk and urgency, to ensure the effectiveness of the Company's business operations and the realization of its corporate objectives and strategies.

The scope of such examinations and reviews include finance, operations, regulatory compliance and risk management. Each member of the Audit Committee has unrestricted access to the external auditors and all senior management of the Group in order to discharge its responsibilities. Save as disclosed above, the Audit Committee has reviewed the audited financial statements of the Company for the year ended 30 June 2009.

During the year ended 30 June 2009, the Audit Committee met twice together with the Chief Financial Officer of the Company as well as with the external auditors of the Group. Please refer to the table set out in the section "The Board Composition and Board Practices" of this corporate governance report for the attendance records of individual Audit Committee members.

The Audit Committee has recommended to the Board that CCIF CPA Limited ("CCIF") be nominated for re-appointment as the Auditors at the forthcoming annual general meeting of the Company.

Corporate Governance Report

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of accounts for each financial period which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 30 June 2009, the Directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

AUDITORS AND THEIR REMUNERATION

CCIF has been appointed as the Auditors for the year ended 30 June 2009 by shareholders at the annual general meeting held on 5 December 2008 and they will hold office until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statements for the year ended 30 June 2009 have been audited by CCIF.

An amount of HK$1,350,000 (2008: HK$1,500,000) was charged to the financial statements of the Company and subsidiaries for the year ended 30 June 2009 for CCIF's statutory audit. No other non-audit service was provided by CCIF for the Company during the two years ended 30 June 2009.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss.

Procedures have been set up for safeguarding assets against unauthorised use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

During the year ended 30 June 2009, the Audit Committee assessed the internal control environment of the Group and reviewed the internal control procedural manual of the Group and concluded that the internal control systems are effective and efficient.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company encourages two-way communications with both its institutional and private investors. Extensive information about the Company's activities is provided in its annual reports and interim reports, which are sent to shareholders of the Company. Meetings with investors were held after results announcement to explain the Company's activities, performance and future plans and to enable better understanding of the Group by the public. The annual general meeting provides a forum for direct communication between the Board and the Company's shareholders. The Company maintains regular communication with media to disseminate financial and other information relating to the Group and its business to the public in order to foster effective communication.

Independent Auditor's Report

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA AGROTECH HOLDINGS LIMITED
(Incorporated in The Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Agrotech Holdings Limited (the "Company") set out on pages 27 to 100, which comprise the consolidated and Company balance sheets as at 30 June 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 23 October 2009

Betty P.C. Tse
Practising Certificate Number P03024

Consolidated Income Statement

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

	Note	2009 HK$'000	2008 HK$'000
Turnover	4	3,178,420	2,894,984
Cost of sales		(2,966,047)	(2,608,179)
Gross profit		212,373	286,805
Valuation gains/(losses) on investment properties	14	595	(9,594)
Other income	5	44,767	41,999
Distribution costs		(76,757)	(98,335)
Administrative expenses		(57,650)	(73,792)
Other expenses		(9,790)	(1,222)
Write down of inventories	19(b)	(24,510)	–
Loss on disposals of subsidiaries	29(a)	(12,226)	–
Profit from operations		76,802	145,861
Finance costs	6(a)	(51,069)	(43,803)
Profit before taxation	6	25,733	102,058
Income tax	7(a)	(13,816)	(15,788)
Profit for the year		11,917	86,270
Attributable to:			
Equity shareholders of the Company	28(a)	11,067	82,423
Minority interests	28(a)	850	3,847
Profit for the year	28(a)	11,917	86,270
Earnings per share	11		
Basic		HK2.26 cents	HK16.83 cents
Diluted		HK2.26 cents	HK16.51 cents

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

At 30 June 2009
(Expressed in Hong Kong dollars)

	Note	2009 HK$'000	2009 HK$'000	2008 HK$'000	2008 HK$'000
Non-current assets					
Property, plant and equipment	13		82,676		53,439
Investment properties	14		20,557		25,726
Lease premiums for land	15		8,538		10,263
Intangible assets	16		118,798		146,301
			230,569		235,729
Current assets					
Lease premiums for land	15	240		317	
Inventories	19	147,882		321,869	
Trade and other receivables	20	1,732,201		1,388,413	
Trading securities	21	2,989		1,165	
Restricted bank deposits	22	305,706		211,416	
Cash and bank balances	23	112,621		192,433	
		2,301,639		2,115,613	
Current liabilities					
Trade and other payables	24	1,482,729		1,235,700	
Bank loans	25	304,433		388,091	
Tax payable	27	37,603		30,954	
		1,824,765		1,654,745	
Net current assets			476,874		460,868
NET ASSETS			707,443		696,597

Consolidated Balance Sheet

At 30 June 2009
(Expressed in Hong Kong dollars)

	Note	2009 HK$'000	2008 HK$'000
CAPITAL AND RESERVES	28(a)		
Share capital		**48,977**	48,977
Reserves		**638,207**	629,973
Total equity attributable to equity shareholders of the Company		**687,184**	678,950
Minority interests		**20,259**	17,647
TOTAL EQUITY		**707,443**	696,597

Approved and authorised for issue by the board of directors on 23 October 2009.

Wu Shaoning
Director

Yang Zhuoya
Director

The accompanying notes form part of these financial statements.

Balance Sheet

At 30 June 2009
(Expressed in Hong Kong dollars)

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Interests in subsidiaries	17	140,554	143,790
Current assets			
Other receivables	20	74	74
Current liabilities			
Other payables	24	(1,625)	(1,691)
Net current liabilities		(1,551)	(1,617)
NET ASSETS		139,003	142,173
CAPITAL AND RESERVES	28(b)		
Share capital		48,977	48,977
Reserves		90,026	93,196
TOTAL EQUITY		139,003	142,173

Approved and authorised for issue by the board of directors on 23 October 2009.

Wu Shaoning
Director

Yang Zhuoya
Director

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company										
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Property revaluation reserve HK$'000	Exchange reserve HK$'000	Other reserves HK$'000	Warrant reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 July 2007	48,977	127,125	1,188	7,833	34,293	49,583	–	286,968	555,967	6,424	562,391
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong	–	–	–	–	58,208	–	–	–	58,208	1,487	59,695
Dividends declared in respect of prior year	–	(12,734)	–	–	–	–	–	–	(12,734)	–	(12,734)
Transfers	–	–	–	–	(6,271)	3,981	–	(3,981)	(6,271)	6,271	–
Issuance of warrants	–	–	–	–	–	–	2,446	–	2,446	–	2,446
Partial disposal of a subsidiary	–	–	–	–	–	–	–	–	–	2,902	2,902
Increase in shareholding in a subsidiary	–	–	–	–	–	–	–	–	–	(73)	(73)
Capital injected by minority shareholders	–	–	–	–	–	–	–	–	–	57	57
Disposals of subsidiaries	–	–	–	–	(1,089)	–	–	–	(1,089)	(3,268)	(4,357)
Profit for the year	–	–	–	–	–	–	–	82,423	82,423	3,847	86,270
At 30 June 2008	48,977	114,391	1,188	7,833	85,141	53,564	2,446	365,410	678,950	17,647	696,597

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000*	Property revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Other reserves *HK$'000*	Warrant reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At 1 July 2008	48,977	114,391	1,188	7,833	85,141	53,564	2,446	365,410	678,950	17,647	696,597
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong	–	–	–	–	(1,514)	–	–	–	(1,514)	(198)	(1,712)
Transfers	–	–	–	–	–	240	–	(240)	–	–	–
Capital injected by minority shareholders	–	–	–	–	–	–	–	–	–	2,383	2,383
Disposal of a jointly-controlled entity	–	–	–	(7,833)	(1,319)	–	–	7,833	(1,319)	–	(1,319)
Disposals of subsidiaries	–	–	–	–	–	–	–	–	–	(423)	(423)
Profit for the year	–	–	–	–	–	–	–	11,067	11,067	850	11,917
At 30 June 2009	48,977	114,391	1,188	–	82,308	53,804	2,446	384,070	687,184	20,259	707,443

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

	Note	2009 HK$'000	2008 HK$'000
Operating activities			
Profit before taxation		25,733	102,058
Adjustments for:			
Gain on partial disposal of a subsidiary	5	–	(508)
Interest income from bank deposits	5	(7,683)	(6,068)
Other interest income	5	(8,783)	(16,262)
Finance costs	6(a)	51,069	43,803
Loss on disposal of property, plant and equipment	6(c)	2,363	433
Loss on disposal of intangible assets	6(c)	–	130
Write off of advances to suppliers	6(c)	–	5,045
Depreciation on owned fixed assets	13	5,478	9,017
Impairment loss on property, plant and equipment	13	137	–
Valuation (gains)/losses on investment properties	14	(595)	9,594
Amortisation of lease premiums for land	15	306	221
Amortisation of intangible assets	16	12,414	22,240
Impairment losses on intangible assets	16	798	–
Write down of inventories	19(b)	24,510	–
Reversal of impairment losses of trade debtors and bills receivables	20(a)(ii)	(7,423)	(3,136)
Impairment losses on trade receivables	20(a)(ii)	8,855	1,222
Loss/(gain) on disposals of subsidiaries	29(a)&(c)	12,226	(8,512)
(Gain)/loss on disposal of jointly-controlled entities	29(b)&(d)	(757)	165
Exchange gains		(2,245)	(622)
Operating profit before changes in working capital		116,403	158,820
Decrease/(increase) in inventories		104,754	(116,763)
(Increase)/decrease in trade and other receivables		(443,758)	29,928
Increase/(decrease) in trade and other payables		381,801	(119,451)
Decrease in due to jointly controlled entity		(17,943)	–
Cash generated from/(used in) operations		141,257	(47,466)
PRC enterprise tax paid		(4,285)	(2,068)
Net cash generated from/(used in) operating activities		136,972	(49,534)
Investing activities			
Interest received		16,466	22,330
Payment for purchase of businesses	30(b)	–	(6,475)
Payment for purchase of property, plant and equipment	13	(47,101)	(18,781)
Payment for lease premiums for land	15	(4,810)	–
Proceeds from sale of property, plant and equipment		–	345
Proceeds from partial disposal of a subsidiary		–	3,410
Purchase of trading securities		(1,828)	(1,091)
(Increase)/decrease in restricted bank deposits		(94,820)	16,178
Payment for acquisition of technical know-how	16	–	(1,511)
Net cash inflow from disposal of jointly-controlled entities	29(b)&(d)	27,965	813
Net cash (outflow)/inflow from disposals of subsidiaries	29(a)&(c)	(758)	786
Net cash (used in)/generated from investing activities		(104,886)	16,004

Consolidated Cash Flow Statement

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

	Note	2009 HK$'000	2008 HK$'000
Financing activities			
Capital contribution from minority shareholders	28	2,383	57
Net proceed on issuance of warrants	28	–	2,446
Advances from minority shareholders		8,185	9,006
Dividends paid to equity shareholders of the Company	28	–	(12,734)
Advance from a director		590	21,770
Repayment to a director		(90)	(10,060)
Drawn down of new bank loans		483,551	388,091
Repayment of bank loans		(554,641)	(316,702)
Interest expenses paid		(51,069)	(43,803)
Net cash (used in)/generated from financing activities		(111,091)	38,071
Net (decrease)/increase in cash and cash equivalents		(79,005)	4,541
Cash and cash equivalents at 1 July		192,433	171,227
Effect of foreign exchange rate changes		(807)	16,665
Cash and cash equivalents at 30 June		112,621	192,433
Represented by:			
Cash and bank balances		112,621	192,433

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

1. GENERAL INFORMATION

China Agrotech Holdings Limited (the "Company") was incorporated in the Cayman Islands with limited liability on 9 September 1999 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The consolidated financial statements of the Company for the year ended 30 June 2009 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly-controlled entities. The Company acts as an investment holding company. The subsidiaries are principally engaged in the following businesses:

(a) the trade of pesticides, fertilisers and other agricultural products;

(b) the manufacture and sales of plant growth regulatory products, pesticides and fertilisers;

(c) the provision of plant protection technical services; and

(d) the trade of non-agricultural resources products.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 30 June 2009 comprise the Company and its subsidiaries and the Group's interest in jointly-controlled entities.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. These financial statements are presented in Hong Kong dollars ("HK$"), rounded to the nearest thousand except for per share data. Hong Kong dollars is the Company's functional and presentation currency.

The measurement basis used in the preparation of the financial statements is the historical cost basis except where stated otherwise the accounting policies in set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 35.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and minority interests *(Continued)*

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(q)).

(d) Jointly-controlled entities

A jointly-controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity. The consolidated financial statements include the Group's proportionate share of the enterprise's assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

Unrealised profits and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interest in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in income statement.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(q)).

The cost of an item property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years.
- Machinery — 5 years
- Furniture and office equipment — 5 years
- Motor vehicles — 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in income statement on the date of retirement or disposal.

(f) Construction-in-progress

Construction-in-progress is stated at cost less impairment losses (see note 2(q)). Cost comprises direct costs of construction incurred, including any attributable financing costs, during the periods of construction and installation. The asset concerned is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed, at which time it commences to be depreciated in accordance with the Group's depreciation policy.

(g) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in as fair value or from the retirement or disposal of an investment property is recognised in income statement. Rental income from investment properties is accounted for as described in note 2(g)(vi).

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Investment property *(Continued)*

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(h).

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(g)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

At the commencement of the lease term, the Group recognises finance leases as assets and liabilities in the balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognised as an asset. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(q). Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Leased assets *(Continued)*

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(g)).

(i) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in a jointly-controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(q)). In respect of jointly-controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the jointly-controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in a jointly-controlled entity is recognised immediately in income statement.

On disposal of a cash-generating unit or a jointly-controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(j) Intangible assets (other than goodwill)

Intangible assets are identifiable non-monetary asset without physical substance.

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and intention to complete the development, it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(s)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(q)). Other development expenditure and expenditure on internally generated goodwill are recognised as an expense in the period in which it is incurred.

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(q)).

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Intangible assets (other than goodwill) *(Continued)*

Amortisation of intangible assets with finite useful lives is charged to income statement on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

–	system development costs	5 years
–	product development costs	5 to 10 years
–	technical know-how	5 to 10 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated on the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment losses for bad and doubtful debts (see note 2(q)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment losses for bad and doubtful debts (see note 2(q)).

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and jointly-controlled entities, are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in income statement as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in income statement.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see note 2(q)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(q)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in income statement. When these investments are derecognised or impaired (see note 2(q)), the cumulative gain or loss previously recognised directly in equity is recognised in income statement.

For an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, it is measured at cost less impairment.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(u)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in income statement over the period of the borrowings, together with any interest and fees payables, using the effective interest method.

(q) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discontinuing is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables *(Continued)*

– For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in income statement. The amount of the cumulative loss that is recognised in income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in income statement.

Impairment losses recognised in income statement in respect of available-for-sale equity securities are not reversed through income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in income statement.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;
– lease premiums for land;
– intangible assets;
– investments in subsidiaries and joint ventures (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)); and
– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

– Recognition of impairment losses

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to income statement in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year (see notes 2(q)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unlisted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(r) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in income statement as follows:

(i) Sale of goods

Revenue is recognised when the goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Provision of services

Revenue from provision of plant protection technical services is recognised on a systematic basis over the terms of the service period.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue recognition *(Continued)*

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in income statement over the useful life of the asset.

(v) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vi) Rental income from operating lease

Rental income receivable under operating leases is recognised in income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in income statement as an integral of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(s) Borrowing costs

Borrowing costs are expensed in income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Employee benefits *(Continued)*

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share option reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting periods, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when the Group demonstrably commits itself to terminate employment or to provide benefit as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(u) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(u)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Income tax *(Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary asset and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

In the current year, the Group has where applicable applied, for the first time the following new amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are effective for the Group's financial year beginning on 1 July 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior adjustment is required.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") *(Continued)*

The Group has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for annual periods beginning on 1 July 2008.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[6]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligation Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standard[3]
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations[2]
HKFRS 2 (Amendments)	Group Cash-Settled Share-based Payment Transaction[7]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[5]

1 Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for transfers of assets from customers received on or after 1 July 2009
6 Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate
7 Effective for annual periods beginning on or after 1 January 2010

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The Company's directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

4. TURNOVER

The principal activities of the Group are (i) trading of fertilizers, pesticides and other agricultural products; (ii) manufacturing and sales of plant growth regulatory products, pesticides and fertilizers; (iii) provision of plant protection technical services; and (iv) trading of non-agricultural resources products.

Turnover represents the sale value of goods supplied to customers and revenue from the provision of services. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2009 HK$'000	2008 HK$'000
Trading of fertilizers, pesticides and other agricultural products	2,280,175	1,769,988
Manufacturing and sales of plant growth regulatory products, pesticides and fertilizers	236,586	267,639
Provision of plant protection technical services	18,900	30,069
Trading of non-agricultural resources products	642,759	827,288
	3,178,420	2,894,984

5. OTHER INCOME

	2009 HK$'000	2008 HK$'000
Interest income from bank deposits	7,683	6,068
Other interest income	8,783	16,262
Government grants *	5,910	3,886
Sundry income	45	104
Gain on partial disposal of a subsidiary	–	508
Gains on disposals of subsidiaries	–	8,512
Agency fee income	128	6,659
Net foreign exchange gain	4,159	–
Gain on disposal of a jointly-controlled entity	757	–
Reversal of impairment loss of trade receivables	7,423	–
Forfeiture of deposits received from customers in respect of sales of non-agricultural resources products	9,879	–
	44,767	41,999

* *It represents the subsidies to the Group from local government for promoting the use of compound fertilizer and earning of foreign currencies from exports.*

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2009 HK$'000	2008 HK$'000
Interest on bank loans and other borrowings wholly repayable, not by instalment, within five years*	51,069	43,803

* *The amount represent the total interest expense on financial liabilities not at fair value through profit or loss.*

(b) Staff costs

	2009 HK$'000	2008 HK$'000
Contributions to defined contribution retirement plans	1,914	1,424
Salaries, wages and other benefits	27,551	26,630
	29,465	28,054

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

6. PROFIT BEFORE TAXATION *(Continued)*

(c) Other items

	Note	2009 HK$'000	2008 HK$'000
Depreciation #	13	**5,478**	9,017
Valuation (gains)/losses on investment properties	14	**(595)**	9,594
Amortisation #			
– lease premiums for land	15	**306**	221
– intangible assets	16	**12,414**	22,240
Cost of inventories #	19(b)	**2,966,047**	2,608,179
Write down of inventories	19(b)	**24,510**	–
Impairment loss on			
– property, plant and equipment *	13	**137**	–
– intangible assets *	16	**798**	–
– trade receivables *	20(a)(ii)	**8,855**	1,222
Loss on disposals of jointly-controlled entities	29(d)	**–**	165
Auditor's remuneration		**1,350**	1,500
Loss on disposals of subsidiaries		**12,226**	–
Loss on disposal of intangible assets		**–**	130
Loss on disposal of property, plant and equipment		**2,363**	433
Net foreign exchange loss		**–**	3,219
Operating leases charges: minimum lease payments for land and buildings #		**4,312**	3,113
Write off of advances to suppliers		**–**	5,045

\# *Cost of inventories includes approximately HK$11,125,000 (2008: HK$13,327,000) relating to staff costs, depreciation, amortisation expenses and operating leases charges, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.*

* *The impairment losses have been included in other expenses in the consolidated income statement.*

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2009 HK$'000	2008 HK$'000
Current tax:		
Hong Kong Profits Tax	–	–
PRC Enterprise Income Tax for the year	13,816	15,788
	13,816	15,788

The Company is exempted from taxation in the Cayman Islands until 2019.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced the corporate profit tax rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009. Hong Kong Profits Tax was not provided for in the financial statements as the Group has no estimated assessable profits arising in Hong Kong during the years ended 30 June 2009 and 2008.

On 16 March 2007, the People's Republic of China (the "PRC") promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, PRC Enterprise Income Tax rate was changed to 25% from 1 January 2008 onwards.

Pursuant to the new PRC Corporate Income Tax Law which took effect from 1 January 2008, a 10% withholding tax was levied on dividends declared to foreign enterprise investors from the PRC effective 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign enterprise investors.

On 22 February 2008, Caishui (2008) No. 1 was promulgated by the PRC tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at 31 December 2007 determined based on the relevant PRC tax laws and regulations are exempted from the withholding tax.

No deferred tax liabilities have been recognised, as the Company controls the dividend policy of its subsidiaries and it has been determined that it is probable that certain of the profits earned by the Company's PRC subsidiaries for the year from 1 January 2008 to 30 June 2009 will not be distributed in the foreseeable future.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

(b) Reconciliation between tax expense and accounting profit at the applicable tax rates:

	2009	2008
	HK$'000	*HK$'000*
Profit before taxation	**25,733**	102,058
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**5,656**	25,556
Tax effect of non-deductible expenses	**5,630**	2,537
Tax effect of non-taxable income	**(6,642)**	(14,059)
Tax effect of unused tax losses not recognised	**10,484**	3,873
Tax effect of utilisation of tax loss not previously recognised	**(1,312)**	(2,119)
Actual tax expense	**13,816**	15,788

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

Year ended 30 June 2009

	Directors' fees	**Salaries, allowances and benefits in kind**	**Retirement scheme contributions**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Executive directors				
Mr. Wu Shaoning	**–**	**666**	**12**	**678**
Mr. Yang Zhuoya	**–**	**360**	**12**	**372**
Independent non-executive directors				
Mr. Lam Ming Yung	**60**	**–**	**–**	**60**
Mr. Zhang Shaosheng	**60**	**–**	**–**	**60**
Mr. Wong Chi Wai	**120**	**–**	**–**	**120**
Non-executive directors				
Mr. Michael Wu Chun Wah (resigned on 12 December 2008)	**160**	**–**	**–**	**160**
	400	**1,026**	**24**	**1,450**

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8. DIRECTORS' REMUNERATION *(Continued)*

Year ended 30 June 2008

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors				
Mr. Wu Shaoning	–	905	12	917
Mr. Yang Zhuoya	–	360	12	372
Independent non-executive directors				
Mr. Lam Ming Yung	60	–	–	60
Mr. Zhang Shaosheng	60	–	–	60
Mr. Wong Chi Wai	120	–	–	120
Non-executive directors				
Mr. Michael Wu Chun Wah (Appointed at 2 June 2008)	30	–	–	30
	270	1,265	24	1,559

(i) For the years ended 30 June 2009 and 2008, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Company or as compensation for loss of office. None of the directors waived or agreed to waive any remuneration for the years ended 30 June 2009 and 2008.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2008: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2008: three) individuals are as follows:

	2009 ***HK$'000***	2008 *HK$'000*
Salaries and other emoluments	**918**	761
Retirement scheme contributions	**34**	31
	952	792

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9. INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

The emoluments of the three (2008: three) individuals with the highest emoluments are within the following bands:

	2009 Number of individuals	2008 Number of individuals
Nil – HK$1,000,000	**3**	3

During the year, no emoluments (2008: nil) were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office.

10. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of approximately HK$3,170,000 (2008: loss of HK$4,755,000) which has been dealt with in the financial statements of the Company.

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data:

(a) Profit attributable to ordinary equity shareholders of the Company

	2009 *HK$'000*	2008 *HK$'000*
Earnings used in calculating basic and diluted earnings per share (profit attributable to equity shareholders of the Company)	**11,067**	82,423

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11. EARNINGS PER SHARE *(Continued)*

(b) Weighted average numbers of ordinary shares

	Number of shares	
	2009	2008
	'000	*'000*
Weighted average number of ordinary shares used in calculating basic earnings per share	**489,767**	489,767
Effect of dilutive potential shares		
– share options	**194**	419
– warrants	**–**	9,159
Weighted average number of ordinary shares used in calculating diluted earnings per share	**489,961**	499,345

12. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segment. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segments

The Group comprises the following main business segments:

Trading operation: the trade of fertilizers, pesticides and other agricultural products.

Manufacturing operation: the manufacture and sales of plant growth regulatory products, pesticides and fertilizers.

Consultancy operation: the provision of plant protection technical services.

Non-agricultural resources trading operation: the trade of non-agricultural resources products.

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12. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

(i) For the year ended 30 June 2009

	Trading operation HK$'000	Manufacturing operation HK$'000	Consultancy operation HK$'000	Non-agricultural resources trading operation HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Revenue from external customers	2,280,175	236,586	18,900	642,759	–	3,178,420
Inter-segment revenue	26,030	20,721	335	90,813	(137,899)	–
Total	2,306,205	257,307	19,235	733,572	(137,899)	3,178,420
Segment result	25,031	21,674	9,790	11,045		67,540
Valuation gains on investment properties						595
Interest income						16,466
Unallocated corporate operating income						–
Unallocated corporate operating expenses						(7,799)
Profit from operations						76,802
Finance costs						(51,069)
Profit before taxation						25,733
Taxation						(13,816)
Profit after taxation						11,917
Depreciation and amortisation for the year	2,037	13,766	2,111	284		18,198
Write down of inventories	20,074	42	–	4,394		24,510
Impairment loss on						
– intangible assets	–	798	–	–		798
– property, plant and equipment	–	–	137	–		137
– trade receivables	2,843	538	–	5,474		8,855
Segment assets	1,963,812	253,335	1,643	275,747		2,494,537
Unallocated assets						37,671
Total assets						2,532,208
Segment liabilities	1,537,699	51,991	254	219,868		1,809,812
Unallocated liabilities						14,953
Total liabilities						1,824,765
Capital expenditure incurred during the year	2,119	44,947	3	32		47,101

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For the year ended 30 June 2009
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12. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

(ii) For the year ended 30 June 2008

	Trading operation HK$'000	Manufacturing operation HK$'000	Consultancy operation HK$'000	Non-agricultural resources trading operation HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Revenue from external customers	1,769,988	267,639	30,069	827,288	–	2,894,984
Inter-segment revenue	13,551	35,437	3,152	30,066	(82,206)	–
Total	1,783,539	303,076	33,221	857,354	(82,206)	2,894,984
Segment results	58,657	39,208	23,505	20,188		141,558
Valuation losses on investment properties						(9,594)
Interest income						22,330
Unallocated corporate operating income						–
Unallocated corporate operating expenses						(8,433)
Profit from operations						145,861
Finance costs						(43,803)
Profit before taxation						102,058
Taxation						(15,788)
Profit after taxation						86,270
Depreciation and amortisation for the year	1,906	27,129	2,252	191		31,478
Impairment loss on						
– trade receivables	1,222	–	–	–		1,222
Segment assets	1,727,938	187,860	23,902	368,222		2,307,922
Unallocated assets						43,420
Total assets						2,351,342
Segment liabilities	1,325,668	41,501	249	273,232		1,640,650
Unallocated liabilities						14,095
Total liabilities						1,654,745
Capital expenditure incurred during the year	2,872	16,897	37	486		20,292

(b) Geographical segments

No analysis of the Group's turnover and contribution from operations by geographical segment has been presented as almost all the Group's operating activities are carried out in the PRC. There is no other geographical segment with segment assets equal to or greater than 10 per cent of the Group's total assets.

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13. PROPERTY, PLANT AND EQUIPMENT

	The Group					
	Buildings HK$'000	Machinery HK$'000	Construction-in-progress HK$'000	Furniture and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost:						
At 1 July 2007	23,355	75,763	1,390	5,095	6,505	112,108
Exchange adjustments	2,491	7,824	809	540	742	12,406
Additions	1,746	894	12,467	1,228	2,446	18,781
Disposals	–	–	–	(389)	(1,061)	(1,450)
Disposal of a subsidiary	–	–	–	(11)	–	(11)
At 30 June 2008 and 1 July 2008	27,592	84,481	14,666	6,463	8,632	141,834
Exchange adjustments	(56)	(182)	(65)	(12)	(19)	(334)
Additions	4,517	984	39,589	443	1,568	47,101
Disposals	–	(261)	(1,789)	(206)	(746)	(3,002)
Disposals of subsidiaries	–	–	–	(635)	(833)	(1,468)
Disposal of a jointly-controlled entity	–	–	–	(488)	–	(488)
Transfer to investment properties	(14,872)	–	–	–	–	(14,872)
Reclassification of construction-in-progress	52,401	–	(52,401)	–	–	–
At 30 June 2009	69,582	85,022	–	5,565	8,602	168,771
Accumulated depreciation and impairment:						
At 1 July 2007	5,684	61,123	–	2,481	2,936	72,224
Exchange adjustments	656	6,570	–	275	331	7,832
Charge for the year	1,355	5,524	–	1,047	1,091	9,017
Write back on disposals	–	–	–	(150)	(522)	(672)
Disposal of a subsidiary	–	–	–	(6)	–	(6)
At 30 June 2008 and 1 July 2008	7,695	73,217	–	3,647	3,836	88,395
Exchange adjustments	(17)	(158)	–	(6)	(9)	(190)
Charge for the year	1,295	1,972	–	798	1,413	5,478
Write back on disposals	–	(257)	–	(92)	(290)	(639)
Disposals of subsidiaries	–	–	–	(552)	(318)	(870)
Impairment loss	137	–	–	–	–	137
Disposal of a jointly-controlled entity	–	–	–	(342)	–	(342)
Transfer to investment properties	(5,874)	–	–	–	–	(5,874)
At 30 June 2009	3,236	74,774	–	3,453	4,632	86,095
Carrying amount:						
At 30 June 2009	66,346	10,248	–	2,112	3,970	82,676
At 30 June 2008	19,897	11,264	14,666	2,816	4,796	53,439

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13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) All buildings are held under medium-term lease and situated in the PRC.

(b) Construction-in-progress represents buildings under construction which the Group intends to hold for own use.

(c) As at 30 June 2009, no building (2008: HK$4,947,000) was pledged for bank loans granted to the Group.

(d) During the year, certain buildings having a carrying amount of approximately HK$8,990,000 (2008: HK$ Nil) were reclassified as investment properties as a result of change in use of the said buildings from held for own use to held for rental purpose.

14. INVESTMENT PROPERTIES

	The Group	
	2009	2008
	HK$'000	*HK$'000*
At valuation		
At 1 July	**25,726**	32,496
Exchange alignment	**(62)**	2,824
Transfer from property, plant and equipment and prepaid lease payments	**15,279**	–
Disposal of a jointly-controlled entity	**(20,981)**	–
Valuation gains/(losses)	**595**	(9,594)
At 30 June	**20,557**	25,726

(a) All investment properties are held under medium-term lease and situated in the PRC.

(b) During the year, certain buildings together with the related lease premiums for land were reclassified as investment properties as the result of the change in use of the said land and buildings from held for own use to held for investment purpose.

(c) All investment properties were revalued at 30 June 2009 on an open market basis calculated by depreciated replacement cost approach. The valuations were carried out by a firm of independent valuers who holds recognised and relevant professional qualification with recent experiences in the location and category of property being revalued.

(d) All investment properties had not been leased out during the years ended 30 June 2009 and 2008.

(e) Direct operating expense incurred in relation to the investment properties for the year ended 30 June 2009 were HK$Nil (2008: HK$56,000).

(f) At 30 June 2009, all investment properties were pledged as securities for bank loans of the Group as detailed in note 25 (2008: HK$Nil).

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15. LEASE PREMIUMS FOR LAND

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Net carrying amount at beginning of the year	**10,580**	9,663
Additions	**4,810**	–
Exchange adjustment	**(25)**	1,138
Transfer to investment properties *(Note 14)*	**(6,281)**	–
Amortisation	**(306)**	(221)
Net carrying amount at end of the year	**8,778**	10,580
Analysed for reporting purposes as:		
Current portion	**240**	317
Non-current portion	**8,538**	10,263
	8,778	10,580

(a) All lease premiums for land are held under medium-term lease and situated in the PRC.

(b) During the year ended 30 June 2009, certain lease premiums for land amounting to approximately HK$6,281,000 (2008: HK$Nil) were reclassified as investment properties as result of change in use of the relevant buildings from held for own use to held for investment purpose.

(c) At 30 June 2009, no lease premium for land (2008: HK$4,484,000) was pledged for bank loans granted to the Group.

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16. INTANGIBLE ASSETS

	The Group				
	Goodwill	System development costs	Product development costs	Technical know-how	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:					
At 1 July 2007	105,956	47,424	46,543	94,679	294,602
Exchange adjustments	11,564	4,868	4,778	9,786	30,996
Additions	6,475	–	–	1,511	7,986
Disposals	–	–	–	(259)	(259)
At 30 June 2008 and 1 July 2008	123,995	52,292	51,321	105,717	333,325
Exchange adjustments	(312)	–	(111)	(227)	(650)
Eliminated on disposals of subsidiaries	(13,986)	–	–	–	(13,986)
At 30 June 2009	**109,697**	**52,292**	**51,210**	**105,490**	**318,689**
Accumulated amortisation and impairment:					
At 1 July 2007	21,376	44,262	15,935	66,605	148,178
Exchange adjustments	2,536	4,721	1,884	7,594	16,735
Charge for the year	–	3,309	4,644	14,287	22,240
Write back on disposals	–	–	–	(129)	(129)
At 30 June 2008 and 1 July 2008	23,912	52,292	22,463	88,357	187,024
Exchange adjustments	(96)	–	(52)	(197)	(345)
Charge for the year	–	–	4,399	8,015	12,414
Impairment loss	–	–	–	798	798
At 30 June 2009	**23,816**	**52,292**	**26,810**	**96,973**	**199,891**
Carrying amount:					
At 30 June 2009	**85,881**	**–**	**24,400**	**8,517**	**118,798**
At 30 June 2008	100,083	–	28,858	17,360	146,301

Notes to the Financial Statements

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16. INTANGIBLE ASSETS *(Continued)*

(a) Impairment test for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to business segment as follows:

	Note	2009 HK$'000	2008 HK$'000
Agricultural resources trading operation	*(i)*	**85,881**	100,083
Non-agricultural resources trading operation	*(ii)*	**–**	–
		85,881	100,083

(i) **Agricultural resources trading operation**

The Group performed its annual impairment test for goodwill allocated to the agricultural resources trading operation CGU by comparing its recoverable amount to its carrying amount as at the balance sheet date. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations used cash flow projection based on a five-year financial budget approved by management and extrapolated perpetually with an estimated general annual growth of not more than 5%. The discount rate used of 10.7% reflected specific risk related to the relevant segment. The budgeted gross margin of 7% is determined by the management based on past performance and its expectations for market development. The management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of the goodwill to exceed the recoverable amount. Accordingly, no impairment loss is recognised for the year.

(ii) **Non-agricultural resources trading operation**

Due to the unsatisfactory performance of non-agricultural resources trading operation in 2005 and 2006, the Group fully impaired the carrying amount of the goodwill allocated to the non-agricultural resources trading operation in prior years.

(b) System development costs represent costs of developing the Group's computer system software. Product development costs represent the internally developed technology on manufacturing pesticides and fertilizers. Technical know-how represents the formula acquired for manufacturing pesticides and fertilisers. They all have finite useful lives.

(c) Amortisation charges for the year of approximately HK$3,797,000 (2008: HK$7,643,000) and HK$8,617,000 (2008: HK$14,597,000) were included in the cost of sales and administrative expenses respectively in the consolidated income statement.

Notes to the Financial Statements

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16. INTANGIBLE ASSETS *(Continued)*

(d) At 30 June 2009, the Company performed impairment test for product development costs and technical know-how. The test used the cash flow projections based on financial estimates covering a five-year period, expected sales deriving from the intangible assets and discount rate ranging from 10.90% to 12.20% (2008: 11.60%). The cash flows beyond the five-year period are extrapolated using a steady growth rate from 0% to 20% (2008: 0% to 35%). The valuations were carried out by an independent qualified professional valuation firm not connected with the Group.

The recoverable amount of product development costs exceed its carrying amount and accordingly no impairment loss is recognised for the year.

The recoverable amount of technical know-how is less than its carrying amount and accordingly an impairment loss of approximately HK$798,000 (2008: Nil) is recognised for the year.

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2009	2008
	HK$'000	*HK$'000*
Unlisted shares, at cost	**11,735**	11,735
Amounts due from subsidiaries	**128,819**	132,055
	140,554	143,790

Amounts due from subsidiaries are unsecured, interest-free and are not expected to be recovered within one year.

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17. INTERESTS IN SUBSIDIARIES *(Continued)*

The following list contains only the particulars of those subsidiaries which principally affect the results, assets and liabilities of the Group. The class of shares held, unless otherwise stated is ordinary.

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
福建浩倫農業科技集團有限公司 *	PRC	RMB50,000,000	100%	–	100%	Investment holding and provision of agricultural technical support services
福州浩倫作物科學有限公司 *	PRC	HK$40,000,000	100%	–	100%	Provision of agricultural technical support services
福建浩倫生物工程技術有限公司 *	PRC	US$1,000,000	100%	–	100%	Manufacturing and selling of plant growth regulatory products and fertilizers
Topmart Limited	Hong Kong	HK$2	100%	–	100%	Investment holding and general trading and export
江西浩倫農業科技有限公司 #	PRC	RMB5,000,000	98.5%	–	98.5%	Trading of pesticides, fertilizers and other agricultural products
湖南浩倫農業科技有限公司 #	PRC	RMB50,000,000	100%	–	100%	Trading of pesticides, fertilisers and other agricultural products
江蘇浩倫農業科技有限公司 #	PRC	RMB50,000,000	100%	–	100%	Trading of pesticides, fertilisers and other agricultural products
海南浩倫農業科技有限公司 #	PRC	RMB2,000,000	100%	–	100%	Trading of pesticides, fertilisers and other agricultural products

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17. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activities
大豐市浩倫農資超市有限責任公司 #	PRC	RMB5,000,000	70%	–	70%	Trading of pesticides, fertilisers and other agricultural products
福建省三明市浩倫園藝植保有限公司 #	PRC	RMB3,000,000	70%	–	70%	Trading of pesticides, fertilisers and other agricultural products
福建浩倫東方資源物產有限公司 #	PRC	RMB30,000,000	100%	–	100%	General trading and export
山東浩倫農業科技有限公司 #	PRC	RMB25,000,000	98%	–	98%	Trading of pesticides, fertilizers and other agricultural products
山東浩倫興魯農資連鎖有限公司 #	PRC	RMB15,000,000	58.8%	–	58.8%	Trading of pesticides, fertilizers and other agricultural products
濟南浩倫安耐特化工有限公司 #	PRC	RMB1,800,000	68.6%	–	68.6%	Trading of pesticides, fertilizers and other agricultural products
秦皇島市東山沅電力燃料有限公司 #	PRC	RMB5,000,000	60%	–	60%	Trading of coal

* *Registered under the laws of the PRC as sino-foreign equity joint venture enterprise*
\# *Registered under the laws of the PRC as domestic enterprise*

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18. INTEREST IN A JOINTLY-CONTROLLED ENTITY

During the year, the Group entered into an agreement with 湖南省湘農農業生產資料有限公司, the partner of the jointly-controlled entity, 湖南湘農農資貿易有限公司, to dispose of the Group's entire interest in that jointly-controlled entity. The disposed company is engaged in trading of fertilizers, pesticides and other agricultural products. The disposal was completed on 31 December 2008.

Included in the consolidated financial statements for the year ended 30 June 2008 are the following items that represent the Group's interest in the assets and liabilities, revenues and expenses of the jointly-controlled entity:

	2008 *HK$'000*
Non-current assets	41,592
Current assets	57,586
Current liabilities	(52,487)
Net assets	46,691
Income	67,835
Expenses	(70,377)
Loss for the year	(2,542)

19. INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2009 ***HK$'000***	2008 *HK$'000*
Raw materials	**12,450**	11,959
Work-in-progress	**1,980**	1,136
Finished goods	**16,603**	16,611
Merchandise	**116,849**	292,163
	147,882	321,869

At 30 June 2009, certain inventories were pledged as securities for bank loans of the Group as detailed in note 25(a) (2008: Nil).

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19. INVENTORIES *(Continued)*

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**2,966,047**	2,608,179
Write down of inventories	**24,510**	–
	2,990,557	2,608,179

During the year, there was significant decrease on net realisable value of fertilizers due to the decrease of market price. As a result, a write-down of inventories of HK$24,510,000 (2008: Nil) has been recognized in the consolidated income statement.

20. TRADE AND OTHER RECEIVABLES

		The Group		The Company	
		2009	2008	**2009**	2008
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Trade debtors and bills receivables	*(a)*	**682,595**	413,189	**–**	–
Less: allowance for doubtful debts		**(8,855)**	(7,449)	**–**	–
		673,740	405,740	**–**	–
Due from minority shareholders	*(b)*	**1,187**	3,554	**–**	–
Other receivables	*(c)*	**–**	105,041	**–**	–
Deposits for acquiring phosphorous mines	*(d)*	**27,224**	27,782	**–**	–
Loans and receivables		**702,151**	542,117	**–**	–
Deposits and prepayments		**163,952**	92,031	**74**	74
Advances to suppliers		**866,098**	754,265	**–**	–
		1,732,201	1,388,413	**74**	74

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

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20. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade debtors and bills receivable

(i) Aging analysis

Trade debtors and bills receivables are net of allowance for doubtful debts of HK$8,855,000 (2008: HK$7,449,000) with the following age analysis as of the balance sheet date:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Within credit period	**613,963**	352,159
Amounts past due		
– Within 3 months	**34,048**	20,060
– More than 3 months	**34,584**	40,970
	682,595	413,189

Debts are generally due within three to six months from the date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and creditworthiness, extend the credit period upon customers' requests. Further details on the Group's credit policy are set out in note 32(a).

(ii) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which cases the impairment loss is written off against trade debtors and bills receivable directly (see note 2(q)(i)).

The movements in the allowance account for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
At 1 July	**7,449**	9,363
Impairment loss recognised	**8,855**	1,222
Disposals of subsidiaries	**(26)**	–
Reversal of impairment loss	**(7,423)**	(3,136)
At 30 June	**8,855**	7,449

At 30 June 2009, the Group's trade debtors and bills receivable of approximately HK$8,855,000 (2008: HK$7,449,000) were individually determined to be impaired. The individually impaired receivables related to long overdue debts and are not expected to be recovered. The Group does not hold any collateral over these balances. Allowance for certain doubtful debts of HK$7,423,000 (2008: HK$3,136,000) made in previous years were reversed because the debts were subsequently recovered.

Notes to the Financial Statements

For the year ended 30 June 2009
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20. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade debtors and bills receivable *(Continued)*

(iii) Trade debtors and bills receivable that are not impaired

The aging analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Neither past due nor impaired	**607,541**	352,159
Past due but not impaired		
Past due within 3 months	**34,048**	16,281
Past due more than 3 months	**32,151**	37,300
	66,199	53,581
	673,740	405,740

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management considered that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(iv) At 30 June 2009, certain trade receivables were pledged as securities for bank loans of the Group as detailed in note 25(a) (2008: HK$Nil).

(b) Due from minority shareholders

The amounts due from minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

(c) Other receivables

A sales and purchase agreement dated 21 December 2007 was entered into with a supplier for the appointment of one of the Group subsidiary as a distributor of certain pesticides. The amount represents payments made to the supplier for working capital purposes. The amount bore interest at the Renminbi benchmark lending rate quoted by The People's Bank of China plus a 20% premium and was repayable on demand. The amount was secured by certain assets of the supplier. During the year, the entire amount of approximately HK$104,461,000 plus interest was returned to the Group as the supplier failed to supply the goods to the Group.

Notes to the Financial Statements

For the year ended 30 June 2009
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20. TRADE AND OTHER RECEIVABLES *(Continued)*

(d) Deposits for acquiring phosphorous mines

The amounts represent two refundable deposits paid by the Group, under two letters of intent for the intended acquisitions of the entire existing shares of two target companies. These two target companies are in the process of acquiring 80% and 85% interests respectively in two mine holding companies which in turn own phosphorous mines in various locations in Hubei Province in the PRC. The two mine holding companies currently do not have exploitation licenses. Pursuant to the letters of intent dated 27 November 2007 (Letter of Intent A) and 29 November 2007 (Letter of Intent B), the Group paid RMB12,000,000 (equivalent to HK$13,641,000) and RMB12,000,000 (equivalent to HK$13,641,000) respectively as refundable deposits to the vendors. The completion of the acquisitions of these two target companies are primarily subject to the procurement of the mine exploitation licenses by the mine holding companies and the acquisition considerations will be based on the verified reserve of the phosphorous mines. The deposit should be refunded to the Group within 10 days after the expiration of the exclusive periods which is 18 months and 240 days after signing the Letter of Intent A and Letter of Intent B, respectively, if the acquisitions are not completed. The mining companies and few other persons guarantee the performance of obligations of the respective vendors in regard to the refundable deposits.

On 15 May 2009 and 15 July 2008, the Group entered into a supplemental agreement with the vendors to extend the Letter of Intend A and the Letter of Intent B which exclusive period expired on 27 May 2009 and 25 July 2008 for a period of 18 months to 27 November 2010 and 180 days to 21 January 2009 respectively. During the year, the management has decided to terminate the Letter of Intent B and the relevant deposit amounted to RMB12,000,000 (equivalent to HK$13,612,000) has been refunded to the Group on 10 September 2009.

21. TRADING SECURITIES

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Trading securities (at fair value)		
Unlisted securities outside Hong Kong, at market value	**2,989**	1,165

22. RESTRICTED BANK DEPOSITS

The restricted bank deposits are bank deposits pledged to banks to secure credit facilities granted to the Group. The bank deposits that have been pledged represent margin deposits to secure short term bills facilities granted to the Group from time to time. The pledged bank deposits will be released upon settlement of relevant short term bills payable and are therefore classified as current assets.

23. CASH AND BANK BALANCES

Cash and bank balances in the balance sheet include a sum of HK$106,402,000 (2008: HK$170,628,000) that are denominated in Renminbi. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange controls imposed by the PRC government. Cash at bank earns interest at floating rates based on daily bank deposit rates.

Notes to the Financial Statements

For the year ended 30 June 2009
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24. TRADE AND OTHER PAYABLES

		The Group		The Company	
		2009	2008	**2009**	2008
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Trade creditors and bills payable	*(a)*	**1,312,361**	1,024,742	**–**	–
Accrued charges		**7,343**	29,754	**1,623**	1,689
Dividend payable		**2**	2	**2**	2
Receipts in advance		**96,086**	116,803	**–**	–
Due to minority shareholders	*(b)*	**3,502**	11,537	**–**	–
Due to a jointly-controlled entity	*(c)*	**–**	17,943	**–**	–
Due to a director	*34(f)*	**12,270**	11,770	**–**	–
Due to a partner of a jointly-controlled entity	*(d)*	**–**	5,383	**–**	–
Other payables		**51,165**	17,766	**–**	–
Financial liabilities carried amortised cost		**1,482,729**	1,235,700	**1,625**	1,691

All of the trade and other payables are expected to be settled within one year.

(a) Trade creditors and bills payable

The ageing analysis of trade creditors and bills payable as of the balance sheet date is as follows:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Due within 1 month or on demand	**550,445**	289,640
Due after 1 month but within 2 months	**482,832**	187,464
Due after 2 months but within 3 months	**37,134**	169,344
Due after 3 months but within 6 months	**218,374**	349,786
Due after 6 months	**23,576**	28,508
	1,312,361	1,024,742

At 30 June 2009, the bills payable of approximately HK$1,019 million (2008: HK$771 million) were secured by restricted bank deposits (note 22) and guarantees given by a director of the Company.

(b) Due to minority shareholders

The amounts due to minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

24. TRADE AND OTHER PAYABLES *(Continued)*

(c) Due to a jointly-controlled entity

The amount due to jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

(d) Due to a partner of a jointly-controlled entity

The amount due to a partner of a jointly-controlled entity is unsecured, interest free and has no fixed terms of repayment.

25. BANK LOANS

At 30 June 2009, details of the bank loans carried at amortised cost and repayable within 1 year were as follows:

		The Group	
		2009	2008
	Note	***HK$'000***	*HK$'000*
Secured	*(a)*	**53,880**	11,368
Unsecured	*(b)*	**250,553**	376,723
		304,433	388,091

(a) At 30 June 2009, the above secured bank loans of the Group amounted to HK$53,880,000 (2008: HK$11,368,000) were secured by the following:

	2009	2008
	HK$'000	*HK$'000*
Lease premiums for land	**–**	4,484
Buildings	**–**	4,947
Investment properties	**20,557**	–
Trade receivables	**6,401**	–
Inventories	**18,135**	–
	45,093	9,431

(b) The unsecured bank loans are guaranteed by a director of the Company and third parties and are secured by properties put up by certain minority shareholders.

(c) At 30 June 2009, the effective interest rates of the bank loans ranged from 3.1% to 8.96% (2008: 5.78% to 10%) per annum.

Notes to the Financial Statements

For the year ended 30 June 2009
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26. EQUITY SETTLED SHARE-BASED TRANSACTIONS

Employee share-based compensation benefits represent the fair value of employee services estimated to be received in exchange for the grant of the relevant options over the relevant vesting periods, the total of which is based on the fair value of the options granted. The amount for each period is determined by spreading the fair value of the options over the relevant vesting periods and is recognised as staff costs and related expenses (note 6(b)) with a corresponding increase in the share option reserve.

The Company has a share option scheme which was adopted on 31 December 2001 whereby the Board is authorised, at their discretion, to grant to employees of the Group, including directors of any company in the Group, and eligible grantees to take up options and subscribe for the shares of the Company. The terms and conditions of the grant are determined by the Board at the time of grant. In any event, the exercisable period of an option must not exceed a period of ten years commencing on the date of grant. Each option gives the holder the right to subscribe for one ordinary share in the Company. Options are forfeited if the employee leaves the Group before the option is vested.

(a) The terms and conditions of the grants that existed during the years are as follows and all options are settled by physical delivery of shares:

Date of grant	Vesting conditions	Exercise period	Exercise price	Number of options granted
1 December 2003	Immediately	1 January 2004 to 30 December 2011	HK$0.55	800,000

(b) The weighted average exercise prices and number of share options are as follows:

	2009		2008	
	Weighted average exercise price *HK$*	**Number of share options** *'000*	Weighted average exercise price *HK$*	Number of share options *'000*
Outstanding at beginning of the year	**0.550**	**800**	0.550	800
Exercised during the year	**–**	**–**	–	–
Outstanding at the end of the year	**0.550**	**800**	0.550	800
Exercisable at the end of the year	**0.550**	**800**	0.550	800

The options outstanding at 30 June 2009 had an exercise price of HK$0.55 (2008: HK$0.55) and a weighted average remaining contractual life of 2.5 years (2008: 3.5 years).

Notes to the Financial Statements

For the year ended 30 June 2009
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26. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(b) *(Continued)*

As the options granted on 1 December 2003, no amount was recognised when employees (which term includes the directors of the Company) were granted share options over shares in the Company in accordance with the accounting policy set out in note 2(t)(ii) for the Group has taken advantage of the transitional provisions set out in HKFRS 2 under which the recognition and measurement policies have not been applied to (i) all options granted to employees on or before 7 November 2002, and (ii) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

27. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation

Provision for taxation of approximately HK$37,603,000 (2008: HK$30,954,000) in the consolidated balance sheet represents provision for the PRC enterprise income tax.

(b) Deferred taxation not recognised

In accordance with the accounting policy set out in note 2(v), the Group has not recognised deferred tax assets in respect of tax losses of approximately HK$13,812,000 (2008: HK$15,252,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction. Under current tax legislation, tax losses of approximately HK$9,972,000 (2008: HK$11,556,000) do not have expiry date and tax losses of approximately HK$3,840,000 (2008: HK$3,696,000) will expire in five years from the year in which they were incurred.

The Group had no other significant deferred taxation not provided for during the year and as at the balance sheet date.

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

28. CAPITAL AND RESERVES

(a) The Group

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Property revaluation reserve HK$'000	Exchange reserve HK$'000	Other reserves HK$'000	Warrant reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 July 2007	48,977	127,125	1,188	7,833	34,293	49,583	–	286,968	555,967	6,424	562,391
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong	–	–	–	–	58,208	–	–	–	58,208	1,487	59,695
Dividends declared in respect of prior year	–	(12,734)	–	–	–	–	–	–	(12,734)	–	(12,734)
Transfers	–	–	–	–	(6,271)	3,981	–	(3,981)	(6,271)	6,271	–
Issuance of warrants	–	–	–	–	–	–	2,446	–	2,446	–	2,446
Partial disposal of a subsidiary	–	–	–	–	–	–	–	–	–	2,902	2,902
Increase in shareholding in a subsidiary	–	–	–	–	–	–	–	–	–	(73)	(73)
Capital injected by minority shareholders	–	–	–	–	–	–	–	–	–	57	57
Disposals of subsidiaries	–	–	–	–	(1,089)	–	–	–	(1,089)	(3,268)	(4,357)
Profit for the year	–	–	–	–	–	–	–	82,423	82,423	3,847	86,270
At 30 June 2008	48,977	114,391	1,188	7,833	85,141	53,564	2,446	365,410	678,950	17,647	696,597
At 1 July 2008	48,977	114,391	1,188	7,833	85,141	53,564	2,446	365,410	678,950	17,647	696,597
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong	–	–	–	–	(1,514)	–	–	–	(1,514)	(198)	(1,712)
Transfers	–	–	–	–	–	240	–	(240)	–	–	–
Capital injected by minority shareholders	–	–	–	–	–	–	–	–	–	2,383	2,383
Disposal of a jointly-controlled entity	–	–	–	(7,833)	(1,319)	–	–	7,833	(1,319)	–	(1,319)
Disposals of subsidiaries	–	–	–	–	–	–	–	–	–	(423)	(423)
Profit for the year	–	–	–	–	–	–	–	11,067	11,067	850	11,917
At 30 June 2009	**48,977**	**114,391**	**1,188**	**–**	**82,308**	**53,804**	**2,446**	**384,070**	**687,184**	**20,259**	**707,443**

Notes to the Financial Statements

For the year ended 30 June 2009
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28. CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Warrant reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At July 2007	48,977	127,125	11,527	–	(30,413)	157,216
Issuance of warrants	–	–	–	2,446	–	2,446
Dividend declared in respect of prior year	–	(12,734)	–	–	–	(12,734)
Loss for the year	–	–	–	–	(4,755)	(4,755)
At 30 June 2008 and 1 July 2008	48,977	114,391	11,527	2,446	(35,168)	142,173
Issuance of warrants	–	–	–	–	–	–
Loss for the year	–	–	–	–	(3,170)	(3,170)
At 30 June 2009	**48,977**	**114,391**	**11,527**	**2,446**	**(38,338)**	**139,003**

(c) Share capital

	2009		2008	
	Number of shares ***'000***	**Amount** ***HK$'000***	Number of shares *'000*	Amount *HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**3,000,000**	**300,000**	3,000,000	300,000
Ordinary shares, issued and fully paid:				
At 1 July and 30 June	**489,767**	**48,977**	489,767	48,977

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regards to the Company's residual assets.

Notes to the Financial Statements

For the year ended 30 June 2009
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28. CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves

(i) Share premium and contributed surplus

Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of the subsidiaries acquired through exchange of shares pursuant to the group reorganisation in 2000.

Under the Companies Law (Revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium and contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

(ii) Capital reserve

Capital reserve represents (i) capital reserve of the subsidiaries and (ii) the difference between the aggregate nominal value of the share capital issued by the Company and the aggregate nominal amount of the share capital of subsidiaries through an exchange of shares pursuant to the group reorganisation in 2000.

(iii) Property revaluation reserve

Property revaluation reserve relates to land and buildings. Where land and buildings is reclassified to investment property, the cumulative increase in fair value of investment property at the date of reclassification is included in the property revaluation reserve, and will be transferred to retained profits upon the retirement or disposal of the relevant property.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(w).

(v) Warrant reserve

Warrant reserve represents the net proceeds received from the issue of warrants of the Company. The reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants.

On 7 September 2007, the Company issued 84,000,000 unlisted warrants at an issue price of HK$0.03 per warrant pursuant to a subscription agreement dated 19 August 2007. Each warrant entitles the holder to subscribe for one ordinary share of HK$0.10 each at an initial subscription price of HK$1.0 per share during the period from 7 September 2007 to 6 September 2009. New shares issued rank pari passu in all respect with the existing shares.

Notes to the Financial Statements

For the year ended 30 June 2009
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28. CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(v) Warrant reserve *(Continued)*

Movements in warrants:

Date of issue	At 1/7/2008	Issued during the year	Exercised during the year	At 30/6/2009
7/9/2007	84,000,000	–	–	**84,000,000**

Terms of unexpired and unexercised warrants at the balance sheet date:

Date of issue	Exercisable period	Number of warrants 2009	2008
7/9/2007	7/9/2007 – 6/9/2009	**84,000,000**	84,000,000

(vi) Other reserves

In accordance with relevant rules and regulations in the PRC, except for sino-foreign equity joint venture enterprises, all the PRC companies are required to transfer 10% of their profit after taxation calculated under PRC accounting rules and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset previous years' losses or to increase the capital of respective companies. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the PRC companies. The enterprise expansion fund can only be used to increase capital of respective companies or to expand their production operations upon approval by the relevant authority.

In accordance with relevant rules and regulations in the PRC applied on sino-foreign equity joint venture enterprises, the appropriations to the statutory reserve fund and enterprise expansion fund are determined by the board of directors of respective companies.

(e) Distributability of reserves

As at 30 June 2009, the aggregate amount of reserves available for distribution to equity shareholders of the Company amounted to approximately HK$87,580,000 (2008: HK$90,750,000) computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's Articles of Association. This includes the Company's share premium and contributed surplus of approximately HK$114,391,000 (2008: HK$114,391,000) and HK$11,527,000 (2008: HK$11,527,000) respectively, less accumulated losses of approximately HK$38,338,000 (2008: HK$35,168,000), which is available for distribution provided that immediately following the date on which the dividend is proposed the Company will be able to pay off its debts as they fall due in the ordinary course of business.

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28. CAPITAL AND RESERVES *(Continued)*

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal balance between debt and equity. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debts (which include bank loans and other financial liabilities), cash and cash equivalents and equity attributable to equity shareholders of the Company (which comprises issued share capital and reserves).

The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt. The Group's strategy is to maintain a gearing ratio of not exceeding 40%. The gearing ratios at 30 June 2009 and 2008 were as follows:

	2009 HK$'000	2008 HK$'000
Bank loans	304,433	388,091
Less: Cash and cash equivalents	(112,621)	(192,433)
Net debt	191,812	195,658
Total equity	707,443	696,597
Total capital	899,255	892,255
Gearing ratio	21%	22%

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposals of subsidiaries during the year ended 30 June 2009

During the year, the Group disposed of the entire interests of seven subsidiaries of the Group through either deregistration or sold to independent third parties. The five deregistered subsidiaries were 福州浩倫技術咨詢有限公司, 福州浩倫植保服務有限公司, 綏芬河浩倫經貿有限公司, 合肥保豐農資有限公司 and 臨汾浩倫農業科技有限公司. The two sold out subsidiaries were 吉安市浩倫農業科技有限公司 and 山西永興肥業有限公司. All these subsidiaries were engaged in trading of fertilizers, pesticides and other agricultural products.

Notes to the Financial Statements

For the year ended 30 June 2009
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29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(a) Disposals of subsidiaries during the year ended 30 June 2009 *(Continued)*

The cash flow and net liabilities of the subsidiaries disposed of were as follows:

	2009 *HK$'000*
Property, plant and equipment	598
Inventories	41,561
Trade and other receivables	31,058
Cash and bank balances	1,552
Trade and other payables	(74,518)
Minority interests	(423)
Net liabilities disposed of	(172)
Attributable goodwill	13,986
Loss on disposals of subsidiaries	(12,226)
Total consideration	1,588
Satisfied by:	
Cash	794
Other payable	794
	1,588
Net cash outflow arising on disposal	
Cash received	794
Cash and bank balances disposed of	(1,552)
	(758)

Notes to the Financial Statements

For the year ended 30 June 2009
(Expressed in Hong Kong dollars)

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Disposal of a jointly-controlled entity during the year ended 30 June 2009

During the year, a jointly-controlled entity of the Group 湖南湘農農資貿易有限公司 was disposed of to a partner of the jointly-controlled entity. This disposed company is engaged in trading of fertilizers, pesticides and other agricultural products.

The cash flow and net assets of the jointly-controlled entity disposed of were as follows:

	2009 *HK$'000*
Property, plant and equipment	146
Investment properties	20,981
Inventories	2,626
Trade and other receivables	58,301
Cash and bank balances	5,951
Trade and other payable	(35,658)
Bank loans	(11,797)
Due to a partner of the jointly-controlled entity	(7,391)
Net assets disposed of	33,159
Gain on disposals	757
Total consideration	33,916
Satisfied by:	
Cash	33,916
Net cash inflow arising on disposal	
Cash consideration	33,916
Cash and bank balances disposed of	(5,951)
	27,965

The jointly-controlled entity disposed of during the year had no significant impact on the Group's turnover or profit for the year ended 30 June 2009.

(c) Disposal of subsidiaries during the year ended 30 June 2008

In 2008, three subsidiaries of the Group were disposed, namely 漳州浩倫農業科技有限公司, 上海遠洋農業生產資料有限公司 and 嘉興浩倫東方能源有限公司. They were engaged in trading of fertilisers, pesticides and other agricultural products.

Notes to the Financial Statements

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29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Disposal of subsidiaries during the year ended 30 June 2008 *(Continued)*

The cash flow and net liabilities of subsidiaries disposed of were as follows:

	2008 *HK$'000*
Property, plant and equipment	5
Inventories	1,452
Trade and other receivables	27,423
Cash and bank balances	805
Trade and other payable	(33,338)
Minority interests	(3,268)
Net liabilities disposed of	(6,921)
Gain on disposals	8,512
Total Consideration	1,591
Satisfied by:	
Cash	1,591
Net cash inflow arising on disposal	
Cash consideration	1,591
Cash and bank balances disposed of	(805)
	786

The subsidiaries disposed of during the year had no significant impact on the Group's turnover or profit for the year ended 30 June 2008.

(d) Disposals of jointly-controlled entities during the year ended 30 June 2008

In 2008, five jointly-controlled entities of the Group were disposed of, namely 郴州湘農業生產資料有限公司, 懷化湘農業生產資料有限公司, 衡陽湘農業生產資料有限公司, 岳陽湘農業生產資料有限公司 and 株州湘農業生產資料有限公司. They were engaged in trading of fertilizers, pesticides and other agricultural products.

Notes to the Financial Statements

For the year ended 30 June 2009
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29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(d) Disposals of jointly-controlled entities during the year ended 30 June 2008 *(Continued)*

The cash flow and net assets of jointly-controlled entities disposed of were as follows:

	2008 *HK$'000*
Inventories	1,704
Trade and other receivables	2,571
Cash and bank balances	982
Trade and other payable	(3,297)
Net assets disposed of	1,960
Loss on disposals	(165)
Total consideration	1,795
Satisfied by:	
Cash	1,795
Net cash inflow arising on disposal	
Cash consideration	1,795
Cash and bank balances disposed of	(982)
	813

The jointly-controlled entities disposed of during the year had no significant impact on the Group's turnover or profit for the year ended 30 June 2008.

(e) In 2008, the Group disposed of 19.6% equity interest in 山東浩倫興魯農資連銷有限公司 with a consideration of approximately HK$3,310,000. Upon the completion of disposal, the Group remained 60% equity interest of this subsidiary.

30. BUSINESS COMBINATIONS

During the year ended 30 June 2009, there was no business combinations made within the Group. For the year ended 30 June 2008, the Group completed the following two acquisitions.

On 9 July 2007, the Group acquired the trading operation of 平江縣農業技術推廣站農資服務部 ("平江農業") for a consideration of approximately HK$3,237,000. The acquired 95% of trading operation has talent and skilful work forces in agricultural business in Hunan, the PRC.

On 16 July 2007, the Group acquired the trading operation of 合肥樂豐化肥有限公司 ("合肥樂豐") for a consideration of approximately HK$3,238,000. The acquired 95% of trading operation has talent and skilful workforce in agricultural in Anhui, the PRC.

Notes to the Financial Statements

For the year ended 30 June 2009
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30. BUSINESS COMBINATIONS *(Continued)*

(a) Details of net assets and goodwill acquired are as follows:

	Trading operation of 平江農業 *HK$'000*	Trading operation of 合肥樂豐 *HK$'000*	Total *HK$'000*
Purchase consideration	3,237	3,238	6,475
Less: fair value of net assets acquired	–	–	–
Goodwill *(Note 17)*	3,237	3,238	6,475

The goodwill is attributable to the premium paid in relation to the benefit of expected synergies from the skills and talent of the acquired workforces, revenue growth and future market development of these entities is considered to be recoverable from future economic benefit generated from their business activities.

The acquired trading operations contributed revenue of HK$57,792,000 and profit after tax of HK$3,807,000 to the Group for the period from their respective dates of acquisition to 30 June 2008. There was no material difference on the contribution of revenue and profit after tax if these acquisitions had occurred on 1 July 2007. These amounts have been calculated using the Group's accounting policies.

(b) Analysis of the net outflow of cash and cash equivalents in respect of the acquisitions:

	平江農業 *HK$'000*	合肥樂豐 *HK$'000*	Total *HK$'000*
Purchase consideration	3,237	3,238	6,475
Cash and cash equivalents acquired	–	–	–
Net outflow of cash and cash equivalents in respect of the acquisitions	3,237	3,238	6,475

31. RETIREMENT BENEFIT SCHEMES

(a) The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme managed by an independent approved MPF Scheme trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

Notes to the Financial Statements

For the year ended 30 June 2009
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31. RETIREMENT BENEFIT SCHEMES *(Continued)*

(b) Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement plan (the "Plan") organised by the local government authorities whereby the subsidiaries are required to contribute to the Plan to fund the retirement benefits of the eligible employees. Contributions made to the Plan are calculated at a certain percentage of the basic salaries of the eligible employees. The local government authorities are responsible for the entire pension obligations payable to the retired employees. The Group is not liable to any retirement benefits payment in the PRC beyond the contributions to the Plan.

The Group does not operate any other scheme for retirement benefits provided to the Group's employees

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management is of fundamental importance to the business operation of the Group. The major types of risk inherent in the Group's business are credit risk, liquidity risk, interest rate risk, foreign currency risk and operation risk. The Group's risk management objective is to maximise shareholder's value and to reduce volatility in earnings while maintaining risk exposures within acceptable limits.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's trade and other receivables and deposits with banks.

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within three to six months from the date of billing. Normally, the Group does not obtain collateral from customers. The impairment losses on bad and doubtful debts account are within management's expectation.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group had certain concentration risk as 11% (2008: 3%) and 30% (2008: 5%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any other guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

The Group limits its exposure to credit risk by placing deposits with financial institutions with no recent history of default. Management does not expect any counterparty to fail to meet its obligations.

Notes to the Financial Statements

For the year ended 30 June 2009
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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

	2009			2008		
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000
The Group						
Trade and other payables	1,482,729	1,482,729	1,482,729	1,235,700	1,235,700	1,235,700
Bank loans	304,433	312,063	312,063	388,091	402,072	402,072
	1,787,162	1,794,792	1,794,792	1,623,791	1,637,772	1,637,772
The Company						
Trade and other payable	1,625	1,625	1,625	1,691	1,691	1,691

(c) Interest rate risk

The Group's interest rate risk arises primarily from the Group's bank loans. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. Borrowings at fixed rate are insensitive to any change in market rates. A change in interest rates at the balance sheet date would not affect the consolidation income statement. The Group's interest rate profile as monitored by management is set out in (i) below.

Notes to the Financial Statements

For the year ended 30 June 2009
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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Interest rate risk *(Continued)*

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the balance sheet date.

	The Group			
	2009		2008	
	Effective interest rate %	HK$'000	Effective interest rate %	HK$'000
Fixed rate borrowings:				
Bank loans	3.1 – 8.96	235,141	7.02 – 8.21	64,857
Variable rate borrowings:				
Bank loans	3.00 – 7.33	69,292	5.78 – 10.00	323,234
Total borrowings		304,433		388,091
Fixed rate borrowings as a percentage of total borrowings		77.2%		16.7%

(ii) Sensitivity analysis

At 30 June 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/ increase the Group's profit after tax and retained profits by approximately HK$693,000 (2008: HK$3,232,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2008.

(d) Currency risk

The Group is exposed to currency risk as certain cash and cash equivalents, trade and other receivables, trade and other payables primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Renminbi.

The Group ensures that the exposure on recognised assets and liabilities that are denominated in a currency other than the functional currency of the operations to which they relate is kept to an acceptable level.

Notes to the Financial Statements

For the year ended 30 June 2009
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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Currency risk *(Continued)*

(i) Exposure to currency risk

The following table details the Group's significant exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in foreign currencies.

	The Group			
	2009		2008	
	USD	RMB	USD	RMB
	'000	'000	'000	'000
Trade and other receivables	4,849	1,497,040	5,396	1,219,466
Cash and cash equivalents	1,991	363,315	2,724	382,044
Trade and other payables	–	(1,291,238)	(10,099)	(1,056,266)
Bank loans	(509)	(264,910)	(2,979)	(341,404)
Overall net exposure	6,331	304,207	(4,958)	203,840

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

The Group

	2009			2008		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity
	%	HK$'000	HK$'000	%	HK$'000	HK$'000
USD	1	368	–	1	291	–
	(1)	(368)	–	(1)	(291)	–
RMB	5	–	12,940	5	–	8,689
	(5)	–	(12,940)	(5)	–	(8,689)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for recognised assets and liabilities in existence at that date, and that all other variables, in particular interest rates, remain constant.

Notes to the Financial Statements

For the year ended 30 June 2009
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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Currency risk *(Continued)*

(ii) **Sensitivity analysis** *(Continued)*

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for 2008.

(e) Operation risk

The Group's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for the past years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered.

(f) Fair value

All financial assets and liabilities are stated at fair value or carried at amounts not materially different from their fair values as at balance sheet date. The fair value of the trading securities is determined by reference to published price quotations from the financial institution.

(g) Equity price risk

The Group is exposed to price changes arising from the trading securities. Given the insignificant portfolio of trading securities, the management believes that the Group's equity price risk is minimal.

33. COMMITMENTS

(a) At 30 June 2009, capital commitments not provided for in the financial statements were as follows:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Contracted but not provided for		
– Construction in progress	–	27,040

Notes to the Financial Statements

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33. COMMITMENTS *(Continued)*

(b) At 30 June 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Within 1 year	**4,154**	1,977
After 1 year but within 5 years	**5,978**	2,841
After 5 years	**5,292**	5,006
	15,424	9,824

The leases typically run for an initial period of one to twenty years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of leases includes contingent rentals.

34. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out elsewhere in these financial statements, the Group had the following material related party transactions during the year.

(a) Guarantee given by a director of the Company

At 30 June 2009, Mr. Wu Shaoning, a director of the Company, gave personal guarantees to a total extent of HK$669,238,000 (2008: HK$625,213,000) in favour of banks for banking facilities granted to the Group.

(b) Guarantee given by minority shareholders of the subsidiaries

At 30 June 2009, 大豐市新農農業生產資料有限公司, a minority shareholder of a Group's subsidiary pledged its properties to banks for banking facilities of approximately HK$9,074,000 granted to that subsidiary of the Group.

At 30 June 2008, 大豐市新農農業生產資料有限公司, 濰坊市興魯農業生物科技有限公司 and 吉安市鑫田化肥農葯有限公司, the minority shareholders of the Group's subsidiaries pledged their properties to banks for banking facilities of approximately HK$19,501,000 granted to the relevant subsidiaries of the Group.

(c) Disposals of jointly-controlled entities

During the year ended 30 June 2009, the Group disposed of a jointly-controlled entity, namely 湖南湘農農資貿易有限公司, engaged in trading of fertilizers, pesticides and other agricultural products to湖南湘農農業生產資料有限公司, a partner of the jointly-controlled entity, at a consideration of HK$33,916,000. The Group recorded a gain of HK$757,000 on the disposal.

During the year ended 30 June 2008, the Group disposed of five jointly-controlled entities, namely 郴州湘農業生產資料有限公司, 懷化湘農業生產資料有限公司, 衡陽湘農業生產資料有限公司, 岳陽湘農業生產資料有限公司 and 株州湘農業生產資料有限公司, engaged in trading of fertilizers, pesticides and other agricultural products to 湖南湘農農資連鎖有限公司, a partner of one of the five jointly-controlled entities, at a total consideration of HK$1,795,000. The Group recorded a loss of HK$165,000 on the disposals.

Notes to the Financial Statements

For the year ended 30 June 2009
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34. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Disposal of 20% interest in a subsidiary to a minority shareholder

During the year ended 30 June 2008, the Group disposed of 19.6% equity interest in 山東浩倫興魯農資連鎖有限公司, a subsidiary of the Group to 濰坊市興魯農業生物科技有限公司, a minority shareholder of that subsidiary, at a consideration of HK$3,410,000. The Group recorded a gain of HK$508,000 on the partial disposal of the subsidiary.

(e) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's executive directors as disclosed in note 8 and the highest paid employees as disclosed in note 9, is as follows:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Short-term employee benefits	**1,944**	2,026
Post-employment benefits	**58**	55
Equity compensation benefits	**–**	–
	2,002	2,081

Total remuneration is included in "staff costs" (see note 6(b)).

(f) Financing arrangements

Amount due to a director	The Group	
	2009	2008
	HK$'000	*HK$'000*
At beginning of the year	**11,770**	60
Advance to the director	**530**	21,770
Repayment to the director	**(30)**	(10,060)
At end of the year	**12,270**	11,770

The amount due to Mr. Wu Shaoning, a director of the Company, is included in trade and other payables (note 24). The amount due to a director is unsecured, interest-free and repayable on demand.

Notes to the Financial Statements

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35. ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

(i) Valuation of investment properties

Investment properties are included in the balance sheet at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration all readily information and current market environment.

The assumptions adopted in the property valuations are based on the market conditions existing at the balance sheet date, with reference to current market sales prices and the appropriate capitalisation rate.

(ii) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Both the period and method of amortisation are reviewed annually. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

(iii) Assessment of impairment of non-current assets

Management assesses the recoverable amount of each asset based on its value in use (using relevant rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the asset. Estimating the value in use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash flows. Cash flow projections for remaining useful life of the asset and the most recent financial budgets/forecasts are approved by management.

Internal and external sources of information are reviewed by the Group at each balance sheet date to asses whether there is any indication that goodwill may be impaired. If any such indication exists, the recoverable amount of the goodwill is estimated. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect the income statement in future years.

Notes to the Financial Statements

For the year ended 30 June 2009
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35. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(a) Key sources of estimation uncertainty *(Continued)*

(iv) Capitalisation of product development costs

Costs incurred on product development projects relating to the design and testing of new or improved technology on manufacturing pesticides and fertilizers are recognised as intangible assets when it is probable that the projects will be a success considering its commercial and technological feasibility, and only if the costs can be measured reliably. It is normally referred to when the Group can demonstrate the existence of a market for the pesticides and fertilizers under development, costs are identifiable and there is an ability to see or use the pesticides and fertilizers that will generate probable future economic benefits. The determination of the commercial and technological feasibility of the project and the ability to sell or use the pesticides and fertilizers involves management's judgment and estimation. If there are significant changes from previous estimates, any write off of capitalised product development costs would affect the income statement in future periods.

(v) Write down of inventories

If the costs of inventories fall below their net realisable values, write down in value of inventories is recognised. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. These estimates require judgement as to the marketing costs and the expected costs to completion, the legal and regulatory framework and general market conditions.

(vi) Impairment for bad and doubtful debts

The Group provides impairment loss for bad and doubtful debts based upon evaluation of the recoverability of the trade and other receivables at each balance sheet date. The impairment are based on the ageing of the trade and other receivables balances, the creditworthiness of debtors and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment may be required.

(vii) Tax provision

The Group's taxation provision is based on management's assessment of the estimated assessable profits for the year taking into consideration the Hong Kong and those relevant tax legislations.

(viii) Recognition of deferred tax assets

The recognition of deferred tax assets requires formal assessment by the Group of the future profitability of related operations. In making this judgement, the Group evaluates, amongst other factors, the forecast financial performance, changes in technology and operational and financing cashflows.

(ix) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(q). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 16(a)).

Notes to the Financial Statements

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35. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Critical accounting judgement in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

36. NON-ADJUSTING POST BALANCE SHEET EVENTS

(i) Subsequent to the balance sheet date, 58,900,000 ordinary shares of HK$0.1 each were issued upon the conversion of certain warrants at an initial subscription price of HK$1.0 per share. The details of share issued are as follows:

Warrants holders	Exercise Date	Number of warrant
Mr. Wu Shaoning, director	20/8/2009	12,000,000
Independent third parties (in aggregate)	27/8/2009-4/9/2009	46,900,000
		58,900,000

The remaining warrants amounting to 25,100,000 were expired and lapsed on 7 September 2009.

(ii) On 21 September 2009, 江西浩倫農業科技有限公司, a 98.5% owned subsidiary of the Group, entered into a share purchase agreement with an independent third party to acquire the entire registered capital of 江西遠洋化肥有限公司 ("江西遠洋"), an investment holding company incorporated in the Mainland China, for a consideration of RMB5,700,000 (equivalent to HK$6,466,000)".

(iii) On 16 September 2009, 福建浩倫農業科技集團有限公司（"福建浩倫"）, a wholly owned subsidiary of the Group, entered into a share purchase agreement with the shareholders of 衡陽萊德集團有限公司（"衡陽萊德"） to acquire 10% issued share capital of 衡陽萊德. The purchase consideration is RMB22,300,000 (equivalent to HK$25,295,000).

(iv) On 8 October 2009, 福州浩倫作物科學有限公司, a wholly owned subsidiary of the Group, entered into an agreement with an independent third party to dispose of 75% of its then wholly owned subsidiary, 福州平衡施肥科技有限公司（"平衡施肥"）, a company incorporated in the Mainland China, for a consideration of RMB1,500,000 (equivalent to HK$1,701,000).

The unaudited net asset value of the disposed subsidiary as at date of disposal was approximately RMB4,769,000 (equivalent to HK$5,409,000). The management does not expect that the final result would have any material difference as compared with the current unaudited figure.

(v) On 30 September 2009, 山東浩倫農業科技有限公司, a 98% owned subsidiary of the Group, entered into an agreement with an independent third party to dispose of 75% of its then wholly owned subsidiary, 荊門浩倫農科磷化有限公司 ("荊門"), a company incorporated in the Mainland China, for a consideration of RMB2,250,000 (equivalent to HK$2,552,000).

The unaudited net asset value of the disposed subsidiary as at date of disposal was approximately RMB7,254,000 (equivalent to HK$8,228,000). The management does not expect that the final result would have any material difference as compared with the current unaudited figure.

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36. NON-ADJUSTING POST BALANCE SHEET EVENTS *(Continued)*

(vi) On 4 June 2009, the Company entered into a share placing agreement with Excalibur Securities Limited (the "Placing Agent") whereby the Company would place, through the Placing Agent, a maximum of 42,900,000 new shares of the Company to independent placees at a price of HK$0.70 per placing share of the Company. The placing of new shares in an aggregate principal amount of HK$30,030,000 was completed on 10 August 2009. The net proceeds from the placing of approximately HK$29,500,000 will be used as general working capital of the Group.

(vii) On 4 June 2009, the Company entered into a convertible bonds placing agreement with the Placing Agent whereby the Company would place and the Placing Agent would procure independent subscribers for subscription of the 3% coupon convertible bonds of the Company ("Convertible Bonds") in an aggregate maximum principal amount of HK$29,970,000. The holders of the Convertible Bonds are entitled to exercise the conversion rights attaching to the Convertible Bonds, in whole or in part, at the conversion price of HK$0.90 per share at any time within 2 years commencing from the date of issue of the Convertible Bonds, to convert the Convertible Bonds into ordinary shares of the Company. The placing of Convertible Bonds in an aggregate principal amount of HK$29,970,000 was completed on 24 July 2009. The net proceeds from the placing of approximately HK$29,800,000 will be used for general working capital of the Group. The Convertible Bonds are not listed on The Stock Exchange of Hong Kong Limited or any other stock exchanges.

(viii) During the year ended 30 June 2008, there are two refundable deposits paid by the Group, under two letters of intent for the intended acquisitions of the entire existing shares of two target companies. These two target companies are in the process of acquiring 80% and 85% interests respectively in two mine holding companies which in turn own phosphorous mines in various locations in Hubei Province in the PRC. The two mine holding companies currently do not have exploitation licenses. Pursuant to the letters of intent dated 27 November 2007 (Letter of Intent A) and 29 November 2007 (Letter of Intent B), the Group paid RMB12,000,000 (equivalent to HK$13,641,000) and RMB12,000,000 (equivalent to HK$13,641,000) respectively as refundable deposits to the vendors. The completion of the acquisitions of these two target companies are primarily subject to the procurement of the mine exploitation licenses by the mine holding companies and the acquisition considerations will be based on the verified reserve of the phosphorous mines. The deposit should be refunded to the Group within 10 days after the expiration of the exclusive periods which is 18 months and 240 days after signing the Letter of Intent A and Letter of Intent B, respectively, if the acquisitions are not completed. The mining companies and few other persons guarantee the performance of obligations of the respective vendors in regard to the refundable deposits.

On 15 May 2009 and 15 July 2008, the Group entered into a supplemental agreement with the vendors to extend the Letter of Intend A and the Letter of Intent B which exclusive period expired on 27 May 2009 and 25 July 2008 for a period of 18 months to 27 November 2010 and 180 days to 21 January 2009 respectively. During the year, the management has decided to terminate the Letter of Intent B and the relevant deposit amounted to RMB12,000,000 (equivalent to HK$13,612,000) has been refunded to the Group on 10 September 2009.

37. COMPARATIVE FIGURES

Certain comparative figure have been reclassified to conform with current years' presentation.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 October 2009.