China Agrotech Holdings Limited

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

Annual Report 2007

Nitrogenous fertilizer

Phosphorous fertilizer

Potash fertilizer

Compound fertilizer

Pesticides

Contents

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

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

Remuneration Committee

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

Auditors

CCIF CPA Limited

Principal Bankers

Bank of China
Fujian Industrial Bank
Agricultural Bank of China
China Construction Bank
China Merchants Bank
Bank of Communications
China Everbright Bank

Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited
P.O. Box 513 G.T.
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

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				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Turnover	664,092	822,027	1,640,708	2,286,255	**2,552,044**
Cost of sales	(541,847)	(724,755)	(1,525,180)	(2,122,132)	**(2,317,068)**
Gross profit	122,245	97,272	115,528	164,123	**234,976**
Valuation gains on investment property	–	–	–	818	**5,064**
Other revenue	1,112	630	1,467	18,596	**24,682**
Distribution costs	(47,219)	(33,681)	(30,412)	(37,618)	**(74,231)**
Administrative Expenses	(46,575)	(45,449)	(57,811)	(61,703)	**(73,261)**
Profit from operations	29,563	18,772	28,772	84,216	**117,230**
Finance costs	(1,478)	(2,337)	(9,550)	(17,490)	**(31,513)**
Profit before taxation	28,085	16,435	19,222	66,726	**85,717**
Income tax	(1,562)	114	(1,486)	(6,048)	**(8,839)**
Profit for the year	26,523	16,549	17,736	60,678	**76,878**
Attributable to:					
Equity holders of the Company	27,149	14,882	21,511	61,627	**80,592**
Minority interests	(626)	1,667	(3,775)	(949)	**(3,714)**
	26,523	16,549	17,736	60,678	**76,878**

	As at 30 June				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total non-current assets	218,047	217,375	234,772	229,276	**228,180**
Total current assets	246,880	388,109	789,349	1,208,902	**1,880,139**
Total current liabilities	(195,386)	(282,370)	(679,976)	(1,013,132)	**(1,545,928)**
Net current assets	51,494	105,739	109,373	195,770	**334,211**
Total assets less current liabilities	269,541	323,114	344,145	425,046	**562,391**
Non-current liabilities	–	(1,885)	(2,817)	(971)	**–**
Net assets	269,541	321,229	341,328	424,075	**562,391**
Total equity attributable to equity holders of the Company	266,033	314,838	334,212	417,762	**555,967**
Minority interests	3,508	6,391	7,116	6,313	**6,424**
Total equity	269,541	321,229	341,328	424,075	**562,391**

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 2007.

Turnover and Profits

For the year ended 30 June 2007, the consolidated turnover of the Group was approximately HK$2,552,044,000 (2006: HK$2,286,255,000), representing a growth of approximately 12%; and the profit attributable to equity holders of the Company was approximately HK$80,592,000 (2006: HK$61,627,000), representing a growth of approximately 31%.

Business Review

During the year under review, driven by the hard work of all our staff, sales of China Agrotech for the year again reached a record high of HK$2.55 billion, all product segments have recorded satisfactory results. After years of dedicated efforts, the Group has successfully become a leading distributor and retailer in the agricultural resources industry in the PRC.

Precise approach to corporate operation and decisive adjustment of strategy are the driving forces behind China Agrotech's rising results. During the financial year under review, the Group's distribution network was further strengthened by the successful operation of the centralized purchase and distribution strategy. Market coverage and penetration rates continued to grow and the Group brand name has also been strengthened. Moreover, the Group has been adjusting its strategies in respect of product manufacturing, distribution and marketing from time to time as to accommodate the constant changes in the competitive market. During the year, the excellent coordination between the manufacturing segment and the circulation network has boosted the turnover or improved the gross profit margin of various kinds of agricultural resources products. In general, the Group has achieved a gross profit of approximately HK$235 million during the year, representing a remarkable growth of approximately 43% compared to that of last year. The gross profit margin grew to approximately 9.2% this year from about 7.2% last year.

In respect of products, via strengthening the supply chain management and the building up of strategic alliance with upstream and downstream players, the turnover of nitrogenous fertiliser and potash fertiliser recorded remarkable growth while their gross profit margin remained stable. For phosphorous fertiliser, compound fertiliser and pesticides, the Group has adjusted their product mix in view of the more competitive and volatile market environment, and achieved obvious improvement in gross profit margin despite the decline of sales.

Chairman's Statement

Corporate Strategies and Prospects

In the coming year, the Chinese Government will continue to reinforce its commitment and supportive policy to the rural area, farmers and the agricultural sector, thus providing a favourable external environment for the Group by creating ample room for its chemical fertiliser and pesticide products to grow.

Looking forward, apart from continuing with the Group's centralised purchase and distribution strategy and product mix adjustment, we will also strive to develop the upper stream business, strengthen the resources supply chains and further lower the operation costs, as well as strengthening the strategic partnerships with upstream brand-names suppliers in order to explore high quality resources and increase the operation of products with high profit margins. The Group will also increase the distribution channels of downstream products and expand its distribution network to the North-eastern and the Southern China Regions. We are confident in the Group's future and we will continue with our effort to become the leading agricultural resources and service provider in the PRC so as to maximise the return for its shareholders.

Appreciation

I would like to take this opportunity to express my gratitude to all members of the Board, the senior management and all staff 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, 25 October 2007

Management Discussion and Analysis

Overall Results

For the year ended 30 June 2007, the Group's consolidated turnover was approximately HK$2,552,044,000 (2006: HK$2,286,255,000) and net profit attributable to equity holders of the Company was approximately HK$80,592,000 (2006: HK$61,627,000), representing a growth of about 12% and 31% respectively as compared to those of the last financial year.

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 manufacturing and selling, purchase and distribution of agricultural resources products, as well as the provision of plant protection and consulting 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:

	2007		2006	
	Turnover *HK$'000*	**Percentage of the total turnover**	Turnover *HK$'000*	Percentage of the total turnover
Agricultural resources operation				
nitrogenous fertiliser	**796,957**	**31%**	571,440	25%
phosphorous fertiliser	**175,274**	**7%**	153,244	7%
potash fertiliser	**142,244**	**6%**	72,804	3%
compound fertiliser	**467,938**	**18%**	510,554	22%
pesticides	**490,734**	**19%**	500,178	22%
Agricultural resources products (subtotal)	**2,073,147**	**81%**	1,808,220	79%
Trading of non-agricultural resources products	**478,897**	**19%**	478,035	21%
Total	**2,552,044**	**100%**	2,286,255	100%

Aggregate sales volume of fertilisers, including nitrogenous fertiliser, phosphorous fertiliser, potash fertiliser and compound fertiliser, increased by around 14% from approximately 850,000 tonnes in the previous year to approximately 970,000 tonnes this year. The turnover for this year was approximately HK$1.582 billion, representing a growth of 21% compared to approximately HK$1.308 billion in the previous year.

For pesticides, turnover dropped approximately 2% from HK$500 million last year to approximately HK$491 million this year.

Turnover for non-agricultural resources product trading remained at approximately HK$480 million, which was similar to the previous year.

Management Discussion and Analysis

Gross profit for the year amounted to approximately HK$235 million and net profit attributable to shareholders of the Company was approximately HK$80.59 million, representing a growth of approximately 43% and 31% respectively as compared to the previous year. Gross profit margin in general increased from approximately 7.2% in the previous year to approximately 9.2% this year. The overall improvement of gross profit margin was attributable to the implementation of centralized purchase and distribution strategy, which resulted in lowering of operating costs.

Agricultural Resources Operation

(1) **Nitrogenous fertiliser**

Nitrogenous fertiliser is the principal product of the Group in terms of both sales and turnover. Although there was excess supply in the market due to the large production capacity of nitrogenous fertiliser in the PRC, the Group's nitrogenous fertiliser operation managed to grow continuously and its gross profit margin was maintained at approximately 3.5%. It was due to the Group's good and trusting relationship with both upstream and downstream companies developed over the years, efforts in leveraging on its capital advantage to build up strategic alliances with reputable upstream suppliers, strengthening of supply chain management, adoption of centralized purchase and distribution strategy, as well as expanding distribution network. In addition, the Group attracted new customers from the industrial sector so that sales volume of nitrogenous fertiliser operation reached approximately 510,000 tonnes (2006: 370,000 tonnes). Turnover increased by 39% to HK$797 million, accounting for approximately 38% and 31% of the agricultural resources products segment and the Group's consolidated turnover respectively.

(2) **Phosphorous fertiliser**

Although the gradual increase in the production capacity of phosphorous fertiliser in the PRC has basically met the market demand, the supply of phosphorous is becoming scarce. The Group leveraged on the advantage of having its own phosphorous fertiliser plant and adjusted the product mix of phosphorous fertiliser by increasing the production of high density phosphorous fertiliser and decreasing that of low density phosphorous fertiliser. As a result, although the sales volume of phosphorous fertiliser decreased to approximately 170,000 tonnes (2006: 190,000 tonnes), turnover increased by 14% to HK$175 million and the gross profit margin increased from 7.1% to 10.0%.

(3) **Potash fertiliser**

Being a scarce resource, 70% of potash fertiliser in the PRC is imported. During the year, the Group leveraged on the advantages of centralized purchase and its own network to expand the operation of potash fertiliser, especially those from Russia. Therefore sales volume and turnover of potash fertiliser dramatically increased by 77% and 95% to approximately 70,000 tonnes and HK$142 million respectively. Gross profit margin was approximately 4.3%.

(4) **Compound fertiliser**

The Group provides specific compound fertiliser for different crops through its own production or procurement. During the year, the Group adjusted the product mix of compound fertiliser products in order to counter the fierce competition in the market. Sales volume decreased from approximately 250,000 tonnes last year to approximately 220,000 tonnes this year. Turnover decreased by approximately 8% to approximately HK$468 million. Gross profit margin slightly increased to approximately 8.4%.

(5) Pesticides

For pesticides, the Group has a large variety of high-value-added pesticide products which are developed with different research institutes. Those pesticide products are either manufactured by the Group's own factories or purchased from suppliers and distributed in the market. Turnover for the year remained at approximately HK$500 million. Thanks to the Group's successful adjustment of product mix structure and marketing strategy, the average gross profit margin of pesticides increased from approximately 15% last year to approximately 19% this year.

Trading of Non-Agricultural Resources Products

For non-agricultural resources products trading, in view of the inflation of Renminbi, Group reduced export trading to minimize foreign exchange risk while kept on increasing bulk import trading of products of resources nature, hence turnover remained at approximately HK$480 million. Leveraging on its ample capital and established sale channels, the Group managed to significantly increase its gross profit margin to approximately 10.9% (2006: 2.9%).

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 2007, the cash and bank balances and restricted bank deposits of approximately HK$377,634,000 included approximately HK$8,167,000 which was denominated in Hong Kong dollars, approximately HK$368,735,000 which was denominated in Renminbi, and approximately HK$732,000 which was denominated in US dollars.

With respect to foreign exchange exposure, as the Group's earnings and borrowings are primarily denominated in Renminbi and that the exchange rate between Renminbi and Hong Kong dollar/US dollar was steady during the year under review, it has no significant exposure to foreign exchange rate fluctuations. During the year under review, the Group had not used any financial instruments for hedging purposes.

Borrowings and banking facilities

As at 30 June 2007, the Group had bank borrowings of approximately HK$287.2 million (denominated in Renminbi) which beared interest at rates ranging from 5.22% to 9.86% per annum, of which approximately HK$15.8 million, HK$13.4 million, HK$30.9 million, HK$178.3 million, HK$48.5 million and HK$0.3 million were secured by certain inventories, plant and machinery and investment property of the Group, properties of certain minority shareholders, pledged bank deposits of the Group plus guarantee provided by a subsidiary/director, corporate guarantee provided by certain subsidiaries, personal guarantee provided by a director, as well as guarantee provided by a third party, respectively.

At as 30 June 2007, the Group had bills payable of approximately HK$601 million which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of approximately HK$180 million which was also denominated in Renminbi.

As at 30 June 2007, the Group maintained a gearing ratio of approximately 52%. This is based on the division of bank borrowings by total equity attributable to equity holders of the Company as at 30 June 2007. The Directors considered that the gearing ratio as at 30 June 2007 was healthy, taking into account of the nature and scale of operations of the Group.

Management Discussion and Analysis

Commitments

As at 30 June 2007, the Group had no significant outstanding contracted capital and other commitments. As at 30 June 2007, the Group had operating lease commitments of approximately HK$4,547,000.

Contingent liabilities

As at 30 June 2007, the Group had no material contingent liabilities.

Remuneration Policies and Share Option Scheme

The Group incurred total salaries and other remunerations of approximately HK$23 million with an average number of about 1,200 staff during the year ended 30 June 2007.

Remuneration packages comprised 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 1 March 2006. During the year ended 30 June 2007, no option in respect of shares of the Company was granted to the relevant participants under the Scheme (2006: options in respect of 56,500,000 shares of the Company were granted).

Biographical Details of Directors and Senior Management

Executive Directors

Mr. Wu Shaoning

aged 42, is the Chairman, chief executive officer and founder of the Group. 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 15 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 42, 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 Fertiliser 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 43, is an Independent Non-executive Director and the Chairman 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. Lam is currently an independent non-executive director of Hualing Holdings Limited and a non-executive director of China Mining Resources Group Limited. He 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. Lam shall be entitled to a remuneration of HK$60,000 per annum during his term of appointment with is determined by the Board by reference to his duties and responsibilities with the Company and the market rate, and will be reviewed by the Board from time to time. Further details of remuneration of Mr. Lam are set out in note 7 to the financial statements. Mr. Lam is interested in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance as specified in the section headed "Directors' and Chief Executives' Interests in Securities" disclosed in the Directors' Report. He does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company. Save as disclosed above, there is no other matter that should be brought to the attention of the shareholders of the Company nor any information to be disclosed pursuant to any of the requirements of Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

Mr. Zhang Shaosheng

aged 56, is an Independent Non-executive Director and a member of the Audit 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 32 years of experience in the teaching of plant protection.

Biographical Details of Directors and Senior Management

Mr. Wong Chi Wai

aged 36, is an Independent Non-executive Director and a member of the Audit 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 13 years of experience in auditing, accounting and financial management. Mr. Wong currently holds a senior position in a bank in Hong Kong. Mr. Wong has not held any directorship in any listed companies in the last three years. He entered into a letter of appointment with the Company for continuously appointed for another one-year term expiring on 26 September 2008 unless and until terminated by either party giving to the other not less than three months' notice in writing. Mr. Wong shall be entitled to a remuneration of HK$120,000 per annum during his term of appointment with is determined by the Board by reference to his duties and responsibilities with the Company and the market rate, and will be reviewed by the Board from time to time. Further details of remuneration of Mr. Wong are set out in note 7 to the financial statements. Mr. Wong is interested in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance as specified in the section head "Directors' and Chief Executives' Interests in Securities" disclosed in the Directors' Report. He does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company. Save as disclosed above, there is no other matter that should be brought to the attention of the shareholders of the Company nor any information to be disclosed pursuant to any of the requirements of Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

Senior Management

Mr. Tong Hing Wah, Raymond

aged 36, 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 14 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.

Ms. Yeh Jing Ping

aged 56, 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 23 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 38, is the business development manager of the Group. He graduated from Central China Normal University with a degree in arts. Mr. Zhao has over 15 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.

Biographical Details of Directors and Senior Management

Ms. Chen Xiao Fang

aged 43, 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 23 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 34, 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 14 years of experience in financial management. He joined the Group in March 2003.

Mr. Huang Zhong Geng

aged 40, 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 19 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 2007.

Principal Activities

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

An analysis of the principal activities of the operations of the Group for the year ended 30 June 2007 is set out in Note 12 to the accounts.

Results and Appropriations

The results of the Group for the year ended 30 June 2007 are set out in the consolidated income statement on page 28 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 Board has recommended the payment of a final dividend of HK2.6 cents per share (approximately RMB2.5 cents per share) for the year ended 30 June 2007 (2006: Nil), subject to members' approval at the forthcoming annual general meeting to be held on 7 December 2007, to the members whose names appear on the Register of Members of the Company on 7 December 2007 and payable on or before 10 January 2008.

Closure of Register of Members

The Register of Members of the Company will be closed from Tuesday, 4 December 2007 to Friday, 7 December 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, namely, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 3 December 2007.

Share Capital

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

Report of the Directors

Reserves and Retained Profit

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

As at 30 June 2007, the Company's reserve available for distribution to shareholders amounted to approximately HK$108,239,000 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$127,125,000 and contributed surplus of approximately HK$11,527,000, less accumulated losses of approximately HK$30,413,000, 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 accounts.

Subsidiaries

Details of the Company's subsidiaries as at 30 June 2007 are set out in Note 18 to the accounts.

Pension Schemes

Details of the Group's pension schemes for the year ended 30 June 2007 are set out in Note 30 to the accounts.

Connected Transactions

During the year ended 30 June 2007, 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.

Report of the Directors

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)*

Independent Non-executive Directors:
Mr. Lam Ming Yung
Mr. Zhang Shaosheng
Mr. Wong Chi Wai

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

Directors' Service Agreements

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

Mr. Wu Shaoning	10 years
Mr. Yang Zhuoya	3 years

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

Mr. Lam Ming Yung, being an Independent Non-executive Director of the Company, 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 2008 and 26 September 2008 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 12.

Report of the Directors

Directors' and Chief Executives' Interests in Securities

As at 30 June 2007, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Listing Rules were as follows:

Long positions in shares of the Company

	Number of ordinary shares				Approximate percentage
Name of Director	Personal interests	Family interests	Corporate interests	Total	of issued share capital
Mr. Wu Shaoning	186,200,000	–	–	186,200,000	38.02%

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 2007, 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.

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.

Report of the Directors

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 1 March 2006, 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 1 March 2006. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to a Participant in any 12-month period must not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of the individual limit must be subject to shareholders' approval.

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

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

Name or category of participants	Number of shares in respect of options: Balance as at 1 July 2006	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year (Note 1)	Outstanding as at 30 June 2007	Date of grant	Exercisable period	Exercise price per share HK$	Weighted average closing price (Note 2) HK$
Directors:									
Wu Shaoning	3,500,000	–	3,500,000	–	–	01/12/2003	01/01/2004 – 30/12/2011	0.55	1.05
	700,000	–	700,000	–	–	16/05/2006	15/09/2006 – 30/12/2011	0.455	1.05
Yang Zhuoya	3,500,000	–	3,500,000	–	–	01/12/2003	01/01/2004 – 30/12/2011	0.55	1.05
	700,000	–	700,000	–	–	16/05/2006	15/09/2006 – 30/12/2011	0.455	1.05
Employees:									
In aggregate	5,500,000	–	4,700,000	–	800,000	01/12/2003	01/01/2004 – 30/12/2011	0.55	1.29
	11,000,000	–	11,000,000	–	–	23/12/2005	01/01/2006 – 30/12/2011	0.282	0.85
	44,100,000	–	44,100,000	–	–	16/05/2006	15/09/2006 – 30/12/2011	0.455	1.17
Total	69,000,000	–	68,200,000	–	800,000				

Notes:

1. No option has been lapsed or cancelled during the year ended 30 June 2007.

2. This represents weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised. A total of 68,200,000 options were exercised during the year ended 30 June 2007, the weighted average closing price of the shares immediately before the dates on which the options were exercised was approximately HK$1.11.

Report of the Directors

Major Suppliers and Customers

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

Competing Interests

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

Purchase, Sale or Redemption of the Company's Listed Securities

The Company did not redeem any of its listed securities during the year ended 30 June 2007. 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 2007.

Independence of Independent Non-executive Directors

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

Public Float

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

Audit Committee

The Company's audit committee (the "Audit Committee") comprises Mr. Lam Ming Yung (as Chairman), Mr. Zhang Shaosheng and Mr. Wong Chi Wai, being the three Independent Non-executive Directors of the Company. The Audit Committee has reviewed with the Company's management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including review of the unaudited interim accounts and the audited annual accounts of the Group during the year.

Report of the Directors

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.

Subsequent Event

On 7 September 2007, the Company issued to Mr. Wong Ting Kwong and Mr. Cheng Maiyue 58,800,000 and 25,200,000 warrants respectively 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$2,400,000 from the issue of the warrants will be used for general working capital.

Auditors

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

On behalf of the Board
Wu Shaoning
Chairman

Hong Kong, 25 October 2007

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 2007 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 2007, 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.

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 2007, four 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	12/12	1/1	–
(Chairman and the Chief Executive Officer)			
Mr. Yang Zhuoya	12/12	–	–
Independent Non-executive Directors			
Mr. Lam Ming Yung	4/12	–	2/2
Mr. Zhang Shaosheng	4/12	1/1	2/2
Mr. Wong Chi Wai	4/12	1/1	2/2

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, except for Mr. Lam Ming Yung who 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 2007.

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.

In accordance with the Articles, one-third of the Directors will retire from office at the Company's annual general meeting. In accordance with Article 87 of the Articles, Mr. Lam Ming Yung and Mr. Wong Chi Wai will retire by rotation 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.

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 25 March 2007.

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. Lam Ming Yung (the chairman of the committee), Mr. Zhang Shaosheng and Mr. Wong Chi Wai, 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 3 July 2005 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, 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 2007.

During the year ended 30 June 2007, 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 2007, 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 2007 by shareholders at the annual general meeting held on 15 December 2006 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 2007 have been audited by CCIF.

An amount of HK$1,000,000 (2006: HK$770,000) was charged to the financial statements of the Company and subsidiaries for the year ended 30 June 2007 for CCIF's statutory audit. No other non-audit service was provided by CCIF for the Company during the two years ended 30 June 2007.

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 2007, 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

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 28 to 94, which comprise the consolidated and company balance sheets as at 30 June 2007, 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 2007 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, 25 October 2007

Betty P.C. Tse
Practising Certificate Number P03024

Consolidated Income Statement

For the year ended 30 June 2007
(Expressed in Hong Kong dollars)

	Note	2007 HK$'000	2006 HK$'000
Turnover	3	**2,552,044**	2,286,255
Cost of sales		**(2,317,068)**	(2,122,132)
Gross profit		**234,976**	164,123
Valuation gains on investment property		**5,064**	818
Other revenue	4	**24,682**	18,596
Distribution costs		**(74,231)**	(37,618)
Administrative expenses		**(73,261)**	(61,703)
Profit from operations		**117,230**	84,216
Finance costs	5(a)	**(31,513)**	(17,490)
Profit before taxation	5	**85,717**	66,726
Income tax	6(a)	**(8,839)**	(6,048)
Profit for the year		**76,878**	60,678
Attributable to:			
– Equity holders of the Company	9, 28(a)	**80,592**	61,627
– Minority interests	28(a)	**(3,714)**	(949)
Profit for the year	28(a)	**76,878**	60,678
Dividends payable to equity holders of the Company attributable to the year:	10		
– Final dividend proposed after the balance sheet date		**12,734**	–
Earnings per share	11		
– Basic		**HK17.66 cents**	HK14.62 cents
– Diluted		**HK17.14 cents**	HK14.57 cents

The notes on pages 36 to 94 form part of these financial statements.

Consolidated Balance Sheet

As at 30 June 2007
(Expressed in Hong Kong dollars)

	Note	2007 HK$'000	2007 HK$'000	2006 HK$'000	2006 HK$'000
Non-current assets					
Property, plant and equipment	13		39,884		40,865
Investment property	14		32,496		25,834
Lease premiums for land	15		9,376		12,830
Intangible assets	16		61,844		70,094
Goodwill	17		84,580		79,653
			228,180		229,276
Current assets					
Trading securities	20	–		631	
Inventories	21	188,875		172,729	
Lease premiums for land	15	287		340	
Trade and other receivables	22	1,313,343		679,548	
Cash and cash equivalents	23	377,634		355,654	
		1,880,139		1,208,902	
Current liabilities					
Trade and other payables	24	1,241,496		802,613	
Bank loans	25	287,219		200,559	
Provision for taxation	27	17,213		9,960	
		1,545,928		1,013,132	
Net current assets			334,211		195,770
Total assets less current liabilities			562,391		425,046
Non-current liabilities					
Bank loans	25		–		971
NET ASSETS			562,391		424,075

Consolidated Balance Sheet

As at 30 June 2007
(Expressed in Hong Kong dollars)

	Note	2007 HK$'000	2006 HK$'000
CAPITAL AND RESERVES	*28(a)*		
Share capital		**48,977**	42,157
Reserves		**506,990**	375,605
Total equity attributable to equity holders of the Company		**555,967**	417,762
Minority interests		**6,424**	6,313
TOTAL EQUITY		**562,391**	424,075

Approved and authorised for issue by the board of directors on 25 October 2007

Wu Shaoning
Director

Yang Zhuoya
Director

The notes on pages 36 to 94 form part of these financial statements.

Balance Sheet

As at 30 June 2007
(Expressed in Hong Kong dollars)

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Investments in subsidiaries	*18*	**158,328**	130,058
Current assets			
Trade and other receivables	*22*	**72**	72
Current liabilities			
Trade and other payables	*24*	**1,184**	946
Net current liabilities		**(1,112)**	(874)
NET ASSETS		**157,216**	129,184
CAPITAL AND RESERVES	*28(b)*		
Share capital		**48,977**	42,157
Reserves		**108,239**	87,027
TOTAL EQUITY		**157,216**	129,184

Approved and authorised for issue by the board of directors on 25 October 2007

Wu Shaoning
Director

Yang Zhuoya
Director

The notes on pages 36 to 94 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2007
(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserve	Share option reserve	Property revaluation reserve	Exchange reserve	Other reserves	Retained profits	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2005	42,157	98,550	1,188	–	–	(2,015)	8,006	186,326	334,212	7,116	341,328
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong	–	–	–	–	–	11,321	–	–	11,321	–	11,321
Transfer to other reserves	–	–	–	–	–	–	37,100	(37,100)	–	–	–
Revaluation surplus	–	–	–	–	7,833	–	–	–	7,833	–	7,833
Equity settled share-based transactions	–	–	–	2,769	–	–	–	–	2,769	–	2,769
Capital injected by minority shareholders	–	–	–	–	–	–	–	–	–	281	281
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	(135)	(135)
Profit for the year	–	–	–	–	–	–	–	61,627	61,627	(949)	60,678
At 30 June 2006	42,157	98,550	1,188	2,769	7,833	9,306	45,106	210,853	417,762	6,313	424,075

Consolidated Statement of Changes in Equity

For the year ended 30 June 2007
(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserve	Share option reserve	Property revaluation reserve	Exchange reserve	Other reserves	Retained profits	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2006	42,157	98,550	1,188	2,769	7,833	9,306	45,106	210,853	417,762	6,313	424,075
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong	–	–	–	–	–	24,987	–	–	24,987	–	24,987
Transfer to other reserves	–	–	–	–	–	–	4,477	(4,477)	–	–	–
Equity settled share-based transactions	–	–	–	2,386	–	–	–	–	2,386	–	2,386
Shares issued under share option scheme	6,820	28,575	–	(5,155)	–	–	–	–	30,240	–	30,240
Capital injected by minority shareholders	–	–	–	–	–	–	–	–	–	4,123	4,123
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(298)	(298)
Profit for the year	–	–	–	–	–	–	–	80,592	80,592	(3,714)	76,878
At 30 June 2007	**48,977**	**127,125**	**1,188**	**–**	**7,833**	**34,293**	**49,583**	**286,968**	**555,967**	**6,424**	**562,391**

The notes on pages 36 to 94 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2007
(Expressed in Hong Kong dollars)

	Note	2007 HK$'000	2006 HK$'000
Operating activities			
Profit before taxation		85,717	66,726
Adjustments for:			
Depreciation		8,920	10,160
Loss on sale of property, plant and equipment		249	72
Loss on sale of lease premiums for land		29	–
Amortisation of lease premiums for land		203	539
Amortisation of intangible assets		29,122	26,607
Impairment of goodwill		–	3,330
Impairment of trade receivables		6,026	–
Write off of trade receivables		–	323
Interest income		(20,710)	(12,184)
Finance costs		31,513	17,490
Equity-settled share-based payment expenses		2,386	2,769
Valuation gains on investment properties		(5,064)	(818)
Realized gains on trading securities		(40)	–
Operating profit before changes in working capital		138,351	115,014
Increase in inventories		(5,462)	(68,358)
Increase in trade and other receivables		(597,783)	(142,006)
Increase in trade and other payables		413,115	221,483
Cash (used in)/generated from operations		(51,779)	126,133
Tax paid			
The People's Republic of China ("PRC") income tax paid		(1,647)	(342)
Net cash (used in)/generated from operating activities		(53,426)	125,791
Investing activities			
Interest received		20,710	12,184
Payment for purchase of subsidiaries	29(b)	–	(14,770)
Payment for the purchase of property, plant and equipment		(6,275)	(4,578)
Proceeds from sale of property, plant and equipment		611	372
Proceeds from sale of/(payment for purchase of) trading securities		710	(631)
Decrease/(increase) in pledged bank deposits		16,425	(99,502)
Payment for acquisition of additional interest in a subsidiary		–	(135)
Payment for lease premiums for land		(952)	–
Proceeds from sale of lease premiums for land		5,041	–
Payment for product development costs		(16,289)	–
Payment for technical know-how		(247)	–
Net cash outflow from disposal of subsidiaries	29(a)	(57)	–
Net cash generated from/(used in) investing activities		19,677	(107,060)

Consolidated Cash Flow Statement

For the year ended 30 June 2007
(Expressed in Hong Kong dollars)

	Note	2007 HK$'000	2006 HK$'000
Financing activities			
Proceeds from issue of shares	28	30,240	–
Capital contribution from minority shareholders		4,123	281
(Repayment to)/advances from minority shareholders		(23,447)	15,041
Repayment to a director		(292)	(792)
Proceeds from new bank loans		286,188	211,588
Repayment of bank loans		(212,965)	(144,484)
Finance costs paid		(31,513)	(17,490)
Net cash generated from financing activities		52,334	64,144
Net increase in cash and cash equivalents		18,585	82,875
Cash and cash equivalents at 1 July		145,802	53,368
Effect of foreign exchange rate changes		6,840	9,559
Cash and cash equivalents at 30 June	23	171,227	145,802

The notes on pages 36 to 94 form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2007
(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 as at and for the year ended 30 June 2007 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. The subsidiaries are principally engaged in the following businesses:

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

(b) the manufacture and sale 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.

These consolidated financial statements are presented in Hong Kong dollars, rounded to the nearest thousand, which is the same as the functional currency of the Company.

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 new and revised HKFRSs that are first effective or available for early adoption for the accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in significant change to the Group's accounting policies applied on these financial statements for the current and prior year presented. The Group has not applied any new and revised standard or interpretation that is not yet effective for the current accounting year (see note 37).

2. Significant Accounting Policies *(Continued)*

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain assets and liabilities are stated at their fair value as explained in the accounting policies 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 36.

(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.

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 holders 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.

2. Significant Accounting Policies *(Continued)*

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

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(m)), unless the investment is classified as held for sale (or include in a disposal group that is classified as held for sale).

(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.

(e) 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(m)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or 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.

2. Significant Accounting Policies *(Continued)*

(f) 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(m)).

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(m)).

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(m)), the cumulative gain or loss previously recognised directly in equity is recognised in income statement.

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

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to income statement, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

2. Significant Accounting Policies *(Continued)*

(h) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(l)) 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(v)(v).

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(l)), 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(l).

(i) Other property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(m)):

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 2(l)); and

– other items of plant and equipment.

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.

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.

2. Significant Accounting Policies *(Continued)*

(j) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(m)). 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.

(k) 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 the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(x)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(m)). Other development expenditure and expenditure on internally generated goodwill are recognised as an expense in the period in which it is incurred.

Other 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(m)).

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.

2. Significant Accounting Policies *(Continued)*

(l) 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(h)); 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

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. 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(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(m). 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.

2. Significant Accounting Policies *(Continued)*

(l) 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(h)).

(m) 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. 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.

2. Significant Accounting Policies *(Continued)*

(m) 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).

2. Significant Accounting Policies *(Continued)*

(m) 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.

(n) 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.

2. Significant Accounting Policies *(Continued)*

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(m)), 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 impairment losses for bad and doubtful debts (see note 2(m)).

(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) 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.

(r) 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.

(s) 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.

(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.

2. Significant Accounting Policies *(Continued)*

(s) Employee benefits *(Continued)*

(ii) Share based payments (Continued)

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).

(t) 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.

2. Significant Accounting Policies *(Continued)*

(t) 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.

2. Significant Accounting Policies *(Continued)*

(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.

(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.

2. Significant Accounting Policies *(Continued)*

(v) 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.

(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) Rental income from operating leases

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 part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(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.

2. Significant Accounting Policies *(Continued)*

(w) Translation of foreign currencies *(Continued)*

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) 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.

(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;

2. Significant Accounting Policies *(Continued)*

(y) Related parties *(Continued)*

(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.

(z) 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.

3. Turnover

The principal activities of the Group are (i) trading of pesticides, fertilisers and other agricultural products; (ii) manufacturing and sale of plant growth regulatory products, pesticides and fertilisers; (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 provision of services. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2007 ***HK$'000***	2006 *HK$'000*
Trading of pesticides, fertilisers and other agricultural products	**1,876,988**	1,585,803
Sales of plant growth regulatory products, pesticides and fertilisers	**159,580**	204,649
Provision of plant protection technical services	**36,579**	17,768
Trading of non-agricultural resources products	**478,897**	478,035
	2,552,044	2,286,255

4. Other revenue

	2007 ***HK$'000***	2006 *HK$'000*
Interest income from bank deposits	**5,206**	2,407
Other interest income	**15,504**	9,777
Government grants#	**2,632**	961
Sundry income	**1,300**	5,451
Realized gains on trading securities	**40**	–
	24,682	18,596

The Group successfully applied for funding support from 國家發展改革委員會辦公廳, set up by the PRC government. The purpose of the fund is to encourage innovation by granting financial assistance to commercial entities whose research and development projects meet certain criteria.

5. Profit before taxation

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

(a) Finance costs

	2007 HK$'000	2006 HK$'000
Interest on bank advances and other borrowings wholly repayable within five years	**31,513**	17,490

(b) Staff costs (including directors' remuneration)

	2007 HK$'000	2006 HK$'000
Contributions to defined contribution retirement plans	**834**	542
Equity-settled share-based payment expenses	**2,386**	2,769
Salaries, wages and other benefits	**19,593**	17,296
	22,813	20,607

(c) Other items

	2007 HK$'000	2006 HK$'000
Amortisation#		
– lease premiums for land	**203**	539
– intangible assets	**29,122**	26,607
Auditors' remuneration	**1,000**	810
Depreciation#	**8,920**	10,160
Net foreign exchange loss	**569**	1,174
Impairment losses		
– trade receivables *(note 22(a))*	**6,026**	–
– goodwill	**–**	3,330
Gain on disposal of subsidiaries *(note 29(a))*	**(678)**	–
Operating leases charges: minimum lease payments		
– land and buildings	**3,140**	2,823
– other property, plant and equipment	**–**	187
Loss on sale of property, plant and equipment	**249**	72
Loss on sale of lease premiums for land	**29**	–
Write off of trade receivables	**–**	323
Cost of inventories# *(note 21(b))*	**2,317,068**	2,122,559

Cost of inventories includes HK$12,840,000 (2006: HK$9,913,000) relating to staff costs, depreciation, and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6. Income Tax in the Consolidated Income Statement

(a) Taxation in the consolidated income statement represents:

	2007 HK$'000	2006 HK$'000
Current tax – The PRC		
Provision for the PRC income tax for the year	8,702	5,865
Under-provision in respect of prior years	137	183
	8,839	6,048

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

No Hong Kong profits tax has been provided for in the financial statements as the Group has accumulated tax losses brought forward which exceed the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the relevant jurisdictions.

PRC income tax represents tax charges on the estimated assessable profits of the Company's subsidiaries established in the PRC. Domestic enterprises of the PRC are subject to income tax rates from 18% to 33%. Productive foreign investment enterprises established in the special economic zones of Fujian, the PRC, are subject to preferential income tax rates ranging from 15% to 30%.

From 1998, the Group established certain productive foreign investment enterprises which were/are entitled to full exemption from the PRC income tax for two years starting from its first profit-making year followed by a 50% reduction for the next consecutive three years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in the PRC. No provision for the PRC income tax was made in respect of the operations of certain productive foreign investment enterprises during the year ended 30 June 2007 (2006: Nil) since these enterprises were either at tax loss position or enjoying the full tax exemption treatment during the year.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax law of the PRC (the "new CIT law"). The new CIT law unifies the corporate income tax for domestic and foreign enterprises at 25% with effect from 1 January 2008. Entities which are entitled to special incentive may continue to be given concessions, if applicable.

The new CIT law provides that further detailed measures and regulations on the determination of taxable profit, tax incentive and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, the Group will assess their impact, if any, and this change in accounting estimate will be accounted for prospectively

6. Income Tax in the Consolidated Income Statement *(Continued)*

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

	2007 HK$'000	2006 HK$'000
Profit before taxation	85,717	66,726
Notional tax on profit before taxation, calculated at the tax rate 33% (2006: 33%)	28,287	22,020
Tax effect of non-deductible expenses	2,999	1,895
Tax effect of additional tax deductions	(4,117)	(6,685)
Tax effect of non-taxable income	(27,327)	(15,059)
Tax effect of unused tax losses not recognised	8,903	3,769
Tax effect of utilisation of tax loss not previously recognised	(821)	(849)
Under-provision in prior years	137	183
Effect of different tax rates used in other jurisdictions	778	774
Actual tax expense	8,839	6,048

7. Directors' remuneration

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

Year ended 30 June 2007

	Director's fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Sub-total HK$'000	Share-based payments *(note (i))* HK$'000	Total HK$'000
Executive directors						
Mr. Wu Shaoning	–	738	12	750	37	787
Mr. Yang Zhuoya	–	348	12	360	37	397
Independent non-executive directors						
Mr. Lam Ming Yung	60	–	–	60	–	60
Mr. Zhang Shaosheng	60	–	–	60	–	60
Mr. Wong Chi Wai	120	–	–	120	–	120
	240	1,086	24	1,350	74	1,424

7. Directors' remuneration *(Continued)*

Director's remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows: *(Continued)*

Year ended 30 June 2006

	Director's fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Retirement scheme contributions *HK$'000*	Sub-total *HK$'000*	Share-based payment *(note (i))* *HK$'000*	Total *HK$'000*
Executive directors						
Mr. Wu Shaoning	–	600	12	612	22	634
Mr. Yang Zhuoya	–	360	12	372	22	394
Independent non-executive directors						
Mr. Lam Ming Yung	60	–	–	60	–	60
Mr. Zhang Shaosheng	60	–	–	60	–	60
Mr. Wong Chi Wai	120	–	–	120	–	120
	240	960	24	1,224	44	1,268

(i) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(s)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 26.

(ii) For the years ended 30 June 2007 and 2006, 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 2007 and 2006.

8. Individuals With Highest Emoluments

Of the five individuals with the highest emoluments, two (2006: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2006: two) individuals are as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other emoluments	**658**	546
Share-based payments	**336**	127
Retirement scheme contributions	**31**	24
	1,025	697

The emoluments of the three (2006: two) individuals with the highest emoluments are within the following bands:

	2007	2006
	Number of individuals	Number of individuals
Nil – HK$1,000,000	**3**	2

9. Profit Attributable to Equity Holders of the Company

The consolidated profit attributable to equity holders of the Company includes a loss of approximately HK$4,594,000 (2006: a loss of approximately HK$4,601,000) which has been dealt with in the financial statements of the Company.

10. Dividends payable to equity holders of the Company attributable to the year

	2007 HK$'000	2006 HK$'000
Final dividend proposed after the balance sheet date of HK2.6 cents per ordinary share (2006: Nil)	12,734	–

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

11. Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately HK$80,592,000 (2006: HK$61,627,000) and the weighted average of 456,296,000 ordinary shares (2006: 421,565,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2007 '000	2006 '000
Issued ordinary shares at 1 July	421,565	421,565
Effect of share options exercised *(note 28(c)(ii))*	34,731	–
Weighted average number of ordinary shares at 30 June	456,296	421,565

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of approximately HK$80,592,000 (2006: HK$61,627,000) and the weighted average number of ordinary shares of 470,160,000 shares (2006: 423,035,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2007 '000	2006 '000
Weighted average number of ordinary shares at 30 June	456,296	421,565
Effect of deemed issue of shares under the Company's share option scheme for nil consideration *(note 26)*	13,864	1,470
Weighted average number of ordinary shares (diluted) at 30 June	470,160	423,035

12. Segment information

Segment information is presented in respect of the Group's business and geographical segments. 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 pesticides, fertilisers and other agricultural products.

Manufacturing operation: the manufacture and sale of plant growth regulatory products, pesticides and fertilisers.

Consultancy operation: the provision of plant protection technical services.

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

(i) For the year ended 30 June 2007

	Trading operation HK$'000	Manufacturing operation HK$'000	Consultancy operation HK$'000	Non-agricultural resources operation HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Revenue from external customers	1,876,988	159,580	36,579	478,897		2,552,044
Inter-segment revenue	31,985	87,727	3,871	1,535	(125,118)	–
Total	1,908,973	247,307	40,450	480,432	(125,118)	2,552,044
Segment result	15,932	41,719	27,055	14,414		99,120
Interest income						20,710
Unallocated corporate operating income						5,064
Unallocated corporate operating expenses						(7,664)
Profit from operations						117,230
Finance costs						(31,513)
Profit before taxation						85,717
Taxation						(8,839)
Profit after taxation						76,878

12. Segment information *(Continued)*

(a) Business segments *(Continued)*

(i) For the year ended 30 June 2007 (Continued)

	Trading operation *HK$'000*	Manufacturing operation *HK$'000*	Consultancy operation *HK$'000*	Non-agricultural resources operation *HK$'000*	Inter-segment elimination *HK$'000*	Consolidated *HK$'000*
Depreciation and amortisation for the year	11,259	24,737	2,159	90		38,245
Impairment of – trade receivables	6.026	–	–	–		6,026
Segment assets	1,711,758	178,408	24,208	176,138		2,090,512
Unallocated assets						17,807
Total assets						2,108,319
Segment liabilities	1,398,522	32,583	87	111,373		1,542,565
Unallocated liabilities						3,363
Total liabilities						1,545,928
Capital expenditure incurred during the year	1,744	21,249	36	734		23,763

12. Segment information *(Continued)*

(a) Business segments *(Continued)*

(ii) For the year ended 30 June 2006

	Trading operation HK$'000	Manufacturing operation HK$'000	Consultancy operation HK$'000	Non-agricultural resources operation HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
Revenue from external customers	1,585,803	204,649	17,768	478,035	–	2,286,255
Inter-segment revenue	15,080	18,916	3,707	12,191	(49,894)	–
Total	1,600,883	223,565	21,475	490,226	(49,894)	2,286,255
Segment result	16,715	41,584	14,118	6,239	–	78,656
Interest income						12,184
Unallocated corporate operating income						818
Unallocated corporate operating expenses						(7,442)
Profit from operations						84,216
Finance costs						(17,490)
Profit before taxation						66,726
Taxation						(6,048)
Profit after taxation						60,678
Depreciation and amortisation for the year	9,801	25,446	2,039	20		37,306
Impairment of – goodwill	–	–	–	3,330		3,330
Write off of trade receivables	323	–	–	–		323
Segment assets	1,091,313	144,200	31,856	166,262	–	1,433,631
Unallocated assets						4,547
Total assets						1,438,178
Segment liabilities	858,950	34,354	3,968	115,551	–	1,012,823
Unallocated liabilities						1,280
Total liabilities						1,014,103
Capital expenditure incurred during the year	26,776	3,460	34	52	–	30,322

12. Segment information *(Continued)*

(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.

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*
Cost:						
At 1 July 2005	35,369	64,536	–	2,248	3,935	106,088
Exchange adjustments	1,411	2,167	–	76	133	3,787
Additions	2,759	3,826	–	1,400	1,463	9,448
Disposals	(91)	(358)	–	(19)	(428)	(896)
Transfer to investment properties	(17,452)	–	–	–	–	(17,452)
At 30 June 2006 and 1 July 2006	21,996	70,171	–	3,705	5,103	100,975
Exchange adjustments	1,359	4,336	–	229	315	6,239
Additions	–	1,770	1,390	1,215	1,900	6,275
Disposals	–	(514)	–	(54)	(813)	(1,381)
At 30 June 2007	**23,355**	**75,763**	**1,390**	**5,095**	**6,505**	**112,108**
Accumulated depreciation:						
At 1 July 2005	3,283	43,544	–	582	1,493	48,902
Exchange adjustments	152	1,458	–	116	50	1,776
Charge for the year	1,051	7,510	–	815	784	10,160
Written back on disposals	(1)	(288)	–	(8)	(155)	(452)
Transfer to investment properties	(276)	–	–	–	–	(276)
At 30 June 2006 and 1 July 2006	4,209	52,224	–	1,505	2,172	60,110
Exchange adjustments	260	3,228	–	93	134	3,715
Charge for the year	1,215	5,989	–	922	794	8,920
Written back on disposals	–	(318)	–	(39)	(164)	(521)
At 30 June 2007	**5,684**	**61,123**	**–**	**2,481**	**2,936**	**72,224**
Net book value:						
At 30 June 2007	**17,671**	**14,640**	**1,390**	**2,614**	**3,569**	**39,884**
At 30 June 2006	17,787	17,947	–	2,200	2,931	40,865

14. Investment property

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Valuation		
At 1 July	**25,834**	–
Exchange adjustments	**1,598**	–
Transfer from owner-occupied properties	**–**	25,009
Valuation gains	**5,064**	818
Other	**–**	7
At 30 June	**32,496**	25,834

(a) The investment properties are held under medium-term leases and situated in the PRC. The cost of the investment property was HK$25,009,000 (2006: HK$25,009,000).

(b) All investment properties of the Group were revalued as at 30 June 2007 on an open market basis. The valuations were carried out by 湘潭正茂房地產評估有限公司, an independent valuer firm with recent experience in the location and category of property being valued.

(c) In 2006, the Group transferred owner-occupied properties of approximately HK$17,176,000 to investment property. An increase of approximately HK$7,833,000 at the date of transfer between the carrying amount of the properties and the fair value is credited directly to property revaluation reserve of the Group.

15. Lease premiums for land

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Net book value at 1 July	**13,170**	13,266
Exchange adjustments	**814**	443
Additions	**952**	–
Disposals	**(5,070)**	–
Amortisation	**(203)**	(539)
Net book value at 30 June	**9,663**	13,170
Current portion of lease premiums for land	**(287)**	(340)
Non-current portion	**9,376**	12,830

The leasehold land is held under medium-term leases and situated in the PRC. The cost of the leasehold land was approximately HK$10,885,000 (2006: HK$14,832,000).

16. Intangible assets

	The Group			
	System development costs *HK$'000*	Product development costs *HK$'000*	Technical know-how *HK$'000*	Total *HK$'000*
Cost:				
At 1 July 2005	43,201	27,560	86,025	156,786
Exchange adjustments	1,460	932	2,906	5,298
At 30 June 2006 and 1 July 2006	44,661	28,492	88,931	162,084
Exchange adjustments	2,763	1,762	5,501	10,026
Additions	–	16,289	247	16,536
At 30 June 2007	**47,424**	**46,543**	**94,679**	**188,646**
Accumulated amortisation:				
At 1 July 2005	23,041	10,594	29,359	62,994
Exchange adjustments	865	377	1,147	2,389
Charge for the year	8,846	1,755	16,006	26,607
At 30 June 2006 and 1 July 2006	32,752	12,726	46,512	91,990
Exchange adjustments	2,026	787	2,877	5,690
Charge for the year	9,484	2,422	17,216	29,122
At 30 June 2007	**44,262**	**15,935**	**66,605**	**126,802**
Net book value:				
At 30 June 2007	**3,162**	**30,608**	**28,074**	**61,844**
At 30 June 2006	11,909	15,766	42,419	70,094

(a) 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 formulae acquired for manufacturing pesticides and fertilisers.

(b) Amortisation charge for the year of HK$2,349,000 (2006: HK$2,826,000) and HK$26,773,000 (2006: 23,781,000) are included in "cost of sales" and "administrative expenses" respectively in the consolidated income statement.

(c) During the year ended 30 June 2007, taking into account the valuation carried out by 福建興閩誠信資產評估有限責任公司, an independent qualified professional valuation firm not connected with the Group, the directors assessed the recoverable amount of the intangible assets and concluded that it is appropriate not to provide for impairment on the intangible assets.

17. Goodwill

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Cost:		
At 1 July	**98,659**	75,244
Exchange adjustments	**7,297**	2,541
Goodwill on acquisition	**–**	20,874
At 30 June	**105,956**	98,659
Accumulated impairment losses:		
At 1 July	**19,006**	15,164
Exchange adjustments	**2,370**	512
Impairment loss	**–**	3,330
At 30 June	**21,376**	19,006
Carrying amount:		
At 30 June	**84,580**	79,653

Impairment test for cash-generating units containing goodwill

Goodwill is allocated to the Groups cash generating units ("CGU") identified according to business segment and country of operation as follows:

	2007			2006		
	Cost	**Accumulated impairment losses**	**Carrying amount**	Cost	Accumulated impairment losses	Company amount
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Trading operation	**102,190**	**(17,610)**	**84,580**	94,893	(15,240)	79,653
Non-agricultural resources trading operation	**3,766**	**(3,766)**	**–**	3,766	(3,766)	–
	105,956	**(21,376)**	**84,580**	98,659	(19,006)	79,653

(Expressed in Hong Kong dollars)

17. Goodwill *(Continued)*

(a) Trading operation

Due to the unsatisfactory performance of the trading operation CGU, in 2005 the directors concluded that the trading operation CGU was not able to generate sufficient cash flows to the Group and an impairment of approximately HK$14,728,000 was therefore recognised in that year.

In 2006, the Group performed an impairment review of goodwill with reference to the valuation carried out by Ample Appraisal Limited, an independent qualified professional valuers not connected with the Group. The valuation is based on cash flow forecasts derived from the most recent financial budgets approved by management covering a seven-year period. The directors concluded not to make impairments on the goodwill.

In 2007, the Group performed an impairment review for goodwill with reference to the valuation carried out by an independent qualified professional valuation firm not connected with the Group. The valuation is based on cash flow forecasts derived from the most recent financial budgets approved by management covering a ten-year period. The directors concluded that it is appropriate not to make impairments on the goodwill.

The recoverable amount of the trading operation CGU is determined based on value-in-use calculations. Management determined the budgeted gross margin based on past performance and its expectation for market development. Management estimates a discount rate using a risk-free rate, the market return and company-specific factors. The growth rates are based on the estimation on the historical annual growth rates of the trading operation CGU and the comparable companies industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

Key assumptions used for value-in-use calculations:

	2007 %	2006 %
- Gross margin	6	4-6
- Growth rate	2-8	25-40
- Discount rate	26	13

(b) Non-agricultural resources trading operation

Due to the unsatisfactory performance of the non-agricultural resources trading operation CGU, in 2005 the directors concluded that the non-agricultural resources trading operation CGU was not able to generate sufficient cash flows to the Group and an impairment of approximately HK$436,000 was therefore being recognised in that year.

In 2006, the directors reassessed the recoverable amount of the non-agricultural resources trading operation CGU and concluded that it is appropriate to make a further impairment of approximately HK$3,330,000. Due to the fact that new competitors have entered into the market, the value in use calculated by using the discount rate is lower than the carrying amount of the non-agricultural resources trading operation CGU.

17. Goodwill *(Continued)*

(b) Non-agricultural resources trading operation *(Continued)*

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated have using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	2006
	%
– Gross margin	4.7 to 10
– Growth rate	10
– Discount rate	13

Management determined the budgeted gross margin based on past performance and its expectation for market development. The discount rate used is pre-tax and reflect specific risks relating to the relevant segments.

The impairment loss recognised during the year relates solely to the Group's non-agricultural resources products trading activities based in the PRC. As the cash generating unit has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would cause the carrying value to be less than the recoverable amount.

18. Investments in subsidiaries

	The Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**11,727**	11,727
Amounts due from subsidiaries	**146,601**	118,331
	158,328	130,058

At 30 June 2007, the amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. At 30 June 2006, the amounts due from subsidiaries are unsecured, interest-free and not expected to be repayable within the next twelve months.

(Expressed in Hong Kong dollars)

18. Investments 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 is ordinary, unless otherwise stated.

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital/ capital contribution	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Yut Yat Company Limited	British Virgin Islands	US$60,000	–	100%	–	Investment holding
Fujian Agrotech Holdings Co., Ltd.*	PRC	RMB50,000,000	100%	–	100%	Investment holding and provision of agricultural technical support services
Fuzhou Agrotech Crop Science Co., Ltd.*	PRC	HK$40,000,000	100%	–	100%	Provision of agricultural technical support services
Fujian Agrotech Bio-Engineering Co., Ltd.*	PRC	US$1,000,000	100%	–	100%	Manufacturing and selling of plant growth regulatory products and fertilisers
Loyal Faith International Industrial Limited	Hong Kong	HK$1,000,000	100%	–	100%	Investment holding
Topmart Limited	Hong Kong	HK$2	100%	–	100%	Investment holding
福建南平市浩倫作物科學有限公司#	PRC	RMB10,000,000	90%	–	10%	Trading of pesticides, fertilisers other agricultural products and provision of agricultural technical support services
山西超大浩倫農業科技有限公司#	PRC	RMB3,000,000	100%	–	100%	Trading of pesticides, fertilisers and other agricultural products
江西浩倫農業科技有限公司#	PRC	RMB5,000,000	100%	–	100%	Trading of pesticides, fertilisers 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	RMB3,000,000	95.5%	–	95.5%	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

(Expressed in Hong Kong dollars)

18. Investments in subsidiaries *(Continued)*

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital/ capital contribution	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
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
建湖縣浩倫農資超市有限責任公司#	PRC	RMB1,000,000	70%	–	70%	Trading of pesticides, fertilisers and other agricultural products
漳州市浩倫農業科技有限公司#	PRC	RMB1,000,000	70%	–	70%	Trading of pesticides, fertilisers and other agricultural products
吉安市浩倫農業科技有限公司#	PRC	RMB1,000,000	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
太原市浩倫科力農業科技有限公司#	PRC	RMB1,000,000	70%	–	70%	Trading of pesticides, fertilisers and other agricultural product
臨汾市超大浩倫農業科技有限公司#	PRC	RMB500,000	70%	–	70%	Trading of pesticides, fertilisers and other agricultural products
常德浩倫農業科技有限公司#	PRC	RMB500,000	70%	–	70%	Trading of pesticides, fertilisers and other agricultural products
華容浩倫金穗農業科技有限公司#	PRC	RMB500,000	85%	–	70%	Trading of pesticides, fertilisers and other agricultural products
荊門市浩淪農科磷化有限公司#	PRC	RMB3,000,000	100%	–	100%	Manufacturing and selling of fertilizers
福州浩倫東方貿易有限公司#	PRC	RMB10,000,000	100%	–	100%	General trading and export
福州澤林貿易有限公司#	PRC	RMB1,000,000	70%	–	70%	Trading of coal

(Expressed in Hong Kong dollars)

18. Investments in subsidiaries *(Continued)*

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital/ capital contribution	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activity
山東浩倫農業科技有限公司#	PRC	RMB25,000,000	100%	–	100%	Trading of pesticides, fertilisers and other agricultural products
上海遠洋農業生產資料有限公司#	PRC	RMB2,000,000	70%	–	70%	Trading of pesticides, fertilisers and other agricultural products
山東浩倫興魯農資連鎖有限公司#	PRC	RMB15,000,000	80%	–	80%	Trading of pesticides, fertilisers and other agricultural products
濟南浩倫安耐特化工有限公司#	PRC	RMB1,800,000	70%	–	70%	Trading of pesticides, fertilisers and other agricultural products
山西安豐農業科技有限公司#	PRC	RMB1,000,000	70%	–	70%	Trading of pesticides, fertilisers and other agricultural products
福州浩倫植保服務有限公司#	PRC	RMB3,000,000	100%	–	100%	Trading of pesticides, fertilisers and other agricultural products
福州浩倫技術咨詢有限公司#	PRC	RMB500,000	100%	–	100%	Provision of agricultural technical support services and consultancy services
福建浩倫投資 (控股) 有限公司#△	PRC	RMB30,000,000	100%	–	100%	Inactive
綏芬河浩倫經貿有限公司#△	PRC	RMB1,000,000	100%	–	100%	Inactive
秦皇島市東山沅電力燃料有限公司#△	PRC	RMB5,000,000	60%	–	60%	Trading of coal
嘉興浩倫東方能源有限公司#	PRC	RMB5,000,000	60%	–	60%	Inactive

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

\# *Registered under the laws of the PRC as domestic enterprise*

△ *Incorporated during the year*

19. Interest in jointly controlled entities

Details of the Group's interest in the jointly controlled entity is as follows:

Name of joint venture	Forms of business structure	Place of incorporation and operation	Particulars of issued and paid up capital/ capital contribution	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by subsidiaries	
湖南湘農農資貿易有限公司#	Incorporated	PRC	Registered capital RMB57,500,000	52%	–	52%	Trading of pesticides, fertilizers and other agricultural products

Registered under the laws of the PRC as domestic enterprise

Included in the consolidated financial statements are the following items that represent the Group's interest in the assets and liabilities, revenues and expenses of the jointly controlled entity:

	2007 HK$'000	2006 HK$'000
Non-current assets	34,753	26,321
Current assets	51,459	89,871
Current liabilities	(39,565)	(72,345)
Net assets	46,647	43,847
Income	145,824	277,272
Expenses	(145,604)	(274,988)
Profit for the year	220	2,284

20. Trading securities

	The Group	
	2007 HK$'000	2006 HK$'000
Trading securities (at fair value)		
Unlisted securities, outside Hong Kong	–	631

21. Inventories

(a) Inventories in the balance sheet comprise:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Raw materials	**17,924**	11,976
Work in progress	**1,254**	229
Finished goods	**169,697**	160,524
	188,875	172,729

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

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**2,317,068**	2,122,132
Write down of inventories	**–**	427
	2,317,068	2,122,559

22. Trade and other receivables

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade debtors and bills receivable *(note (a))*	**337,148**	218,363	**–**	–
Advances to suppliers	**927,498**	394,964	**–**	–
Due from minority shareholders *(note (b))*	**–**	922	**–**	–
Due from a joint venture partner *(note (c))*	**14,136**	–	**–**	–
Deposits and prepayments	**34,561**	65,299	**72**	72
	1,313,343	679,548	**72**	72

22. Trade and other receivables *(Continued)*

(a) Trade debtors and bills receivable:

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts of approximately HK$9,363,000 (2006: HK$3,337,000)) with the following ageing analysis as of the balance sheet date:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Within 1 month	**201,214**	104,501
Within 1 to 2 months	**77,659**	53,276
Within 2 to 3 months	**27,192**	20,911
Within 3 to 6 months	**11,218**	20,973
Over 6 months	**19,865**	18,702
	337,148	218,363

The Group allows a credit period normally ranging from 90 days to 180 days to its trade customers. The Group may, on a case by case basis and after evaluation of the business relationship and creditworthiness, extend the credit period upon customers' request.

Movements of provision for impairment losses are analysed as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 July	**3,337**	3,363
Charge for the year	**6,026**	–
Write-offs	**–**	(26)
At 30 June	**9,363**	3,337

In 2007, trade debtors and bills receivable of approximately HK$9,363,000 (2006: HK$3,337,000) were determined to have been impaired, in light of the fact that these trade debtors and bills receivables were long overdue for over 180 days as at the balance sheet date without any settlement during the year and remained outstanding, and/or were due from debtors with financial difficulties.

In 2006, the directors concluded to write off the trade debtors of approximately HK$323,000 stated net of an impairment of approximately HK$26,000.

No cash deposits had been placed by the related trade debtors with the Group (2006: Nil).

22. Trade and other receivables *(Continued)*

(b) Due from minority shareholders

At 30 June 2006, the amounts due from minority shareholders are unsecured, interest-free and repayable within twelve months.

(c) Due from a joint venture partner

At 30 June 2007, the amount due from a joint venture partner is unsecured, interest-free and has no fixed terms of repayments.

(d) All of the trade and other receivables are expected to be recovered within one year.

23. Cash and cash equivalents

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Cash and cash equivalents in the consolidated balance sheet	**377,634**	355,654
Less: Pledged bank deposits for banking facilities granted to the Group	**(206,407)**	(209,852)
Cash and cash equivalents in the consolidated cash flow statement	**171,227**	145,802

Pledged deposits are funds which are pledged to secure certain bank loans and bills payable of the Group.

At 30 June 2007, cash and deposits with banks of approximately HK$368,735,000 (2006: HK$341,317,000) were denominated in Renminbi, which is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange control imposed by the PRC government.

24. Trade and other payables

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade creditors and bills payable *(note (a))*	**821,781**	674,462	**–**	–
Accrued charges	**29,227**	30,687	**1,124**	856
Receipts in advance	**360,802**	50,328	**–**	–
Due to minority shareholders *(note (b))*	**2,531**	24,510	**–**	–
Due to jointly controlled entities *(note (c))*	**4,988**	–	**–**	–
Due to a director *(note (d))*	**60**	332	**60**	90
Provision and other payables	**22,107**	22,294	**–**	–
	1,241,496	802,613	**1,184**	946

(a) Trade creditors and bills payable

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Within 1 month or on demand	**332,043**	126,160
After 1 month but within 2 months	**115,324**	169,672
After 2 months but within 3 months	**132,328**	94,067
After 3 months but within 6 months	**220,997**	266,231
After 6 months	**21,089**	18,332
	821,781	674,462

(b) Due to minority shareholders

At 30 June 2007, the amounts due to minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

At 30 June 2006, the amounts due to minority shareholders are unsecured, interest-free and repayable within twelve months.

24. Trade and other payables *(Continued)*

(c) Due to jointly controlled entities

The amounts due to jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

(d) Due to a director

At 30 June 2007, the amount due to a director, Mr. Wu Shaoning, is unsecured, interest-free and has no fixed terms of repayment.

At 30 June 2006, the amount due to a director, Mr. Wu Shaoning, is unsecured, interest-free and repayable within twelve months.

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

25. Bank loans

At 30 June 2007, the bank loans were repayable as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Within 1 year or on demand	**287,219**	200,559
After 1 year but within 2 years	**–**	971
	287,219	201,530

At 30 June 2007, the bank loans were secured as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Secured	**46,722**	12,200
Unsecured	**240,497**	189,330
	287,219	201,530

25. Bank loans *(Continued)*

At 30 June 2007, certain banking facilities of the Group were secured by machinery, investment properties, inventories and bank deposits with an aggregate carrying value of approximately HK$1,031,000 (2006: HK$1,942,000), HK$32,496,000 (2006: HK$25,834,000), HK$10,309,000 (2006: Nil) and HK$26,350,000 (2006: Nil) respectively. Such banking facilities amounted to approximately HK$46,722,000 (2006: HK$12,200,000). The facilities were utilised to the extent of approximately HK$46,722,000 (2006: HK$12,200,000).

At 30 June 2007, the effective interest rates of the bank loans range from 5.22% to 9.86% (2006: 4.6% to 8.8%) per annum.

All of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 31(b). As at 30 June 2007, none of the covenants relating to drawn down facilities had been breached (2006: Nil).

Including in secured bank loans are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group	
	2007	2006
	'000	*'000*
Euro	**–**	EUR18
United State Dollars	**USD549**	USD2,339

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 5(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.

26. Equity settled share-based transactions *(Continued)*

(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	12,500,000
23 December 2005	Immediately	1 January 2006 to 30 December 2011	HK$0.282	11,000,000
16 May 2006	Immediately	15 September 2006 to 30 December 2011	HK$0.455	45,500,000
				69,000,000

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

	2007		2006	
	Weighted average exercise price HK$	Number of share options granted '000	Weighted average exercise price HK$	Number of share options granted '000
Outstanding at 1 July	0.445	69,000	0.550	30,000
Granted during the year	N/A	–	0.421	56,500
Exercised during the year	0.443	(68,200)	N/A	–
Lapsed during the year	N/A	–	0.550	(17,500)
Outstanding at 30 June	0.550	800	0.445	69,000
Exercisable at 30 June	0.550	800	0.425	23,500

The weighted average share price at the date of exercise from share options exercised during the year was HK$1.13 (2006: not applicable).

The options outstanding at 30 June 2007 had exercise price of HK$0.55 (2006: HK$0.282, HK$0.455 or HK$0.550) and a weighted average remaining contractual life of 4.5 years (2006: 5.5 years).

(Expressed in Hong Kong dollars)

26. Equity settled share-based transactions *(Continued)*

(c) Fair value of share options and assumptions

For the options granted on 23 December 2005 and 16 May 2006, the fair value of services received in return for share options granted are measured with reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes model. Contractual life of the option and expectations of early exercise are incorporated into the model. The expected volatility is based on the historical volatility. Expected dividends are based on the historical dividends as well as expectation on future period performance. Changes in subjective input assumptions could materially affect the fair value estimate.

Fair values of share options and assumptions

	Date of Grant	
	23 December 2005	**16 May 2006**
Fair value at measurement date	HK$0.123	HK$0.083
Share price	HK$0.33	HK$0.435
Exercise price	HK$0.282	HK$0.455
Expected life of options	6 years	5.25 years
Expected volatility	56.41%	35.04%
Expected dividends	5%	5%
Risk-free interest rate	4.179%	4.653%

For the options granted on 1 December 2003, no amounts were 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(s)(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.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services rendered. There were no market conditions associated with share option grants.

27. Income tax in the balance sheet

(a) Current taxation

Provision for taxation of approximately HK$17,213,000 (2006: HK$9,960,000) in the consolidated balance sheet represents provision for PRC income tax.

(b) Deferred taxation not recognised

In accordance with the according policy set out in note 2(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately HK$3,806,000 (2006: HK$6,296,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses will expire in five years from the year in which they were incurred.

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$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Exchange reserve HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 July 2005	42,157	98,550	1,188	–	–	(2,015)	8,006	186,326	334,212	7,116	341,328
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong	–	–	–	–	–	11,321	–	–	11,321	–	11,321
Transfer to reserves	–	–	–	–	–	–	37,100	(37,100)	–	–	–
Revaluation surplus	–	–	–	–	7,833	–	–	–	7,833	–	7,833
Equity settled share-based transactions	–	–	–	2,769	–	–	–	–	2,769	–	2,769
Capital injected by minority shareholders	–	–	–	–	–	–	–	–	–	281	281
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	(135)	(135)
Profit for the year	–	–	–	–	–	–	–	61,627	61,627	(949)	60,678
At 30 June 2006	42,157	98,550	1,188	2,769	7,833	9,306	45,106	210,853	417,762	6,313	424,075

28. Capital and reserves *(Continued)*

(a) The Group *(Continued)*

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserve	Share option reserve	Property revaluation reserve	Exchange reserve	Other reserves	Retained profits	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2006	42,157	98,550	1,188	2,769	7,833	9,306	45,106	210,853	417,762	6,313	424,075
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong	–	–	–	–	–	24,987	–	–	24,987	–	24,987
Transfer to other reserves	–	–	–	–	–	–	4,477	(4,477)	–	–	–
Equity settled share-based transactions	–	–	–	2,386	–	–	–	–	2,386	–	2,386
Shares issued under share option scheme	6,820	28,575	–	(5,155)	–	–	–	–	30,240	–	30,240
Capital injected by minority shareholders	–	–	–	–	–	–	–	–	–	4,123	4,123
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(298)	(298)
Profit for the year	–	–	–	–	–	–	–	80,592	80,592	(3,714)	76,878
At 30 June 2007	**48,977**	**127,125**	**1,188**	**–**	**7,833**	**34,293**	**49,583**	**286,968**	**555,967**	**6,424**	**562,391**

28. Capital and reserves *(Continued)*

(b) The Company

	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 July 2005	42,157	98,550	11,527	–	(21,218)	131,016
Equity settled share-based transactions	–	–	–	2,769	–	2,769
Loss for the year	–	–	–	–	(4,601)	(4,601)
At 30 June 2006 and 1 July 2006	42,157	98,550	11,527	2,769	(25,819)	129,184
Equity settled share-based transactions	–	–	–	2,386	–	2,386
Shares issued under share option scheme	6,820	28,575	–	(5,155)	–	30,240
Loss for the year	–	–	–	–	(4,594)	(4,594)
At 30 June 2007	**48,977**	**127,125**	**11,527**	**–**	**(30,413)**	**157,216**

(c) Share capital

	2007 Number of shares '000	**2007** Amount HK$'000	2006 Number of shares '000	2006 Amount HK$'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	**421,567**	**42,157**	421,567	42,157
Exercise of share options	**68,200**	**6,820**	–	–
At 30 June	**489,767**	**48,977**	421,567	42,157

28. Capital and reserves *(Continued)*

(c) Share capital *(Continued)*

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 regard to the Company's residual assets.

(i) Increase in authorised share capital

By a special resolution passed at an extraordinary general meeting held on 1 March 2006, the Company's authorised ordinary share capital was increased to HK$300,000,000 by the creation of an additional 2,500,000,000 ordinary shares of HK$0.1 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

(ii) Shares issued under share option scheme

During the year ended 30 June 2007, options were exercised to subscribe for 68,200,000 ordinary shares in the Company at a consideration of HK$30,240,000 of which HK$6,820,000 was credited to share capital and the balance of HK$23,420,000 was credited to the share premium account. HK$5,155,000 has been transferred from the share option reserve to the share premium account in accordance with policy set out in note 2(s)(ii).

(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) Share option reserve

Share option reserve represents the value of share options granted to the option holders the right to subscribe for ordinary shares of the Company (note 26).

28. Capital and reserves *(Continued)*

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

(iv) Property revaluation reserve

Property valuation 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.

(v) 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).

(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 2007, the aggregate amount of reserves available for distribution to equity holders of the Company amounted to approximately HK$108,239,000 (2006: HK$84,258,000) 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$127,125,000 (2006: HK$98,550,000) and HK$11,527,000 (2006: HK$11,527,000) respectively, less accumulated loss of approximately HK$30,413,000 (2006: HK$25,819,000), 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.

29. Notes to the consolidated cash flow statement

(a) Disposal of subsidiaries during the year ended 30 June 2007

In 2007, two subsidiaries of the Group were deregistered, namely 山西安豐農業科技有限公司 and 平和縣超大浩倫錦溪生產資料有限公司, which were engaged in trading of pesticides, fertilisers, and other agricultural products. The cash flow and the net liabilities of subsidiaries disposed of are provided below:

	2007 *HK$'000*
Inventories	7
Trade and other receivables	8,181
Cash and bank balances	57
Other payables	(8,625)
Minority interests	(298)
Net liabilities disposed of subsidiaries	(678)
Gain on disposal	678
Consideration received	–
Less: Cash of subsidiaries disposed of	(57)
Net cash outflow in respect of the disposal of subsidiaries	57

The subsidiaries disposed of during the year had no significant impact on the Group's turnover or profit for the year ended 30 June 2007.

(b) Acquisition of subsidiaries during the year ended 30 June 2006

In 2006, the Group acquired the following subsidiaries:

山西永興肥業有限公司;
湖南浩倫農業科技有限公司岳陽分公司;
山東浩倫農業科技有限公司諸城分公司;
山東浩倫農業科技有限公司淄博分公司;
江蘇浩倫農業科技有限公司徐洲分公司;
江蘇浩倫農業科技有限公司連雲港分公司; and
江蘇浩倫農業科技有限公司荷澤分公司

29. Notes to the consolidated cash flow statement *(Continued)*

(b) Acquisition of subsidiaries during the year ended 30 June 2006 *(Continued)*

which were engaged in the business of trading of pesticides, fertilisers and other agricultural products for HK$20,874,0000 in cash. The acquisition has been accounted for using the purchase method. The cash flow and the net assets of subsidiaries acquired are provided below:

	2006
	HK$'000
Net assets acquired	–
Goodwill arising on acquisition *(note 17)*	20,874
Total purchase price paid, satisfied in cash	20,874
Amounts transferred from "Trade and other receivables" –	
Prepayment for acquisition of business in prior year	(6,104)
Net cash outflow in respect of the acquisition of the business	14,770

The goodwill is attributable to the profitability of the acquired business and the synergies expected to arise after the Group's acquisition of the business.

The subsidiaries acquired during that year had no significant impact on the Group's turnover or profit for the year ended 30 June 2006.

30. Retirement benefit schemes

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.

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.

31. Financial instruments

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

The Group's credit risk is primarily attributable to financial assets at fair value through profit or loss and trade and other receivables.

Financial assets at fair value through profit or loss are governed by whether the issuer and the counter party respectively have sound financial standing and/or reputation.

Trade and other receivables mainly arise from the Group's business activities. Management monitors the credit policy on an ongoing basis. The Group has established procedures in the selection of customers with sound financial standing and/or reputation.

The Group has well defined policies in place on the setting and approval of trading, credit and investment position limits in order to limit its credit risk exposure and concentration. As at the balance sheet date, the Group does not have significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities.

The Group's policy is to regularly assess current and expected liquidity requirements and to ensure that it maintains reserves of cash and readily realisable marketable securities to meet its operating needs and possible liquidity requirements in the short and long term.

(c) Interest rate risk

There are two types of interest rate risk:

- Fair value interest rate risk – the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and

- Cash flow interest rate risk – the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to both fair value and cash flow interest rate risks. The Group monitors its interest rate exposure regularly to ensure that the underlying risk is monitored within an acceptable range. The Group's interest rate positions arise from treasury and operating activities. Interest rate risk arises in treasury management. Management considers the Group's exposure to interest rate risk is normal.

31. Financial instruments *(Continued)*

(d) Foreign currency risk

The Group's exposure to foreign exchange risk primarily stems from holdings of monetary assets and liabilities denominated in foreign currencies and net investment in foreign subsidiaries. As most of the Group's monetary assets and liabilities and net investment in foreign subsidiaries are denominated in Hong Kong dollars or Renminbi, management does not consider there is any significant currency risk.

(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) Sensitivity analysis

In managing interest rate and foreign currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's profit or loss. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated profit or loss.

At 30 June 2007, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before taxation by approximately HK$2,872,000 (2006: HK$2,015,000) so far as the effect on interest-baring financial instrument is concerned.

(g) 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.

(h) Estimation of fair values

Fair value of trading securities is usually based on quoted market prices at the balance sheet date without any deduction for transaction costs. Unlisted investments for which fair values cannot be reliably measured are stated at cost.

The fair values of trade and other receivables, trade and other payables, cash and cash equivalents and bank loans are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

32. Operating lease commitments

At 30 June 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Within 1 year	**1,442**	1,397
After 1 year but within 5 years	**1,691**	3,328
After 5 years	**1,414**	1,248
	4,547	5,973

The leases typically run for an initial period of one to ten 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.

33. Material related party transactions

In addition to the transactions or balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(a) Guarantee given by a director of the Company

During the year ended 30 June 2007, Mr. Wu Shaoning, a director of the Company, gave personal guarantee to the extent of approximately HK$48,453,000 (2006: Nil) in favour of banks for banking facilities granted to the Group.

(b) Guarantee given by minority shareholders

During the year ended 30 June 2007, 大豐市新農農業生產資料有限公司 and 濰坊市興魯農業生產資料有限公司 pledged their properties to in favour of banks for banking facilities of approximately HK$13,403,000 (2006: Nil) granted to the Group.

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Short-term employee benefits	**1,744**	1,506
Post-employment benefits	**409**	171
Equity compensation benefits	**55**	48
	2,208	1,725

Total remuneration is included in "staff costs" (see note 5(b)).

34. Non-adjusting post balance sheet events

(a) On 19 August 2007, the Company entered into a subscription agreement with two subscribers in relation to the subscription of a total of 84,000,000 warrants at the price of HK$0.03 per warrant. The holders of the warrants will have the right as attached to the warrants to subscribe the shares of the Company at subscription price of HK$1 per share at any time during a period of two years commencing from the date of the issue of the warrants. Each warrant carries the right to subscribe for one subscription share. Upon full exercise of the subscription rights attached to the warrants, an aggregate of 84,000,000 new ordinary shares of the Company will be issued and alloted to the holders of the warrants. On 7 September 2007, the subscription agreement was completed.

This warrant arrangement had no dilutive effect on the basic earnings per share for the year.

(b) After the balance sheet date the directors proposed a final dividend. Further details are discussed in note 10.

35. Comparative figures

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

36. Significant accounting estimates and judgements

Key sources of estimation uncertainty

Note 31 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty are as follows:

(a) 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.

(b) 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.

(c) 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.

36. Significant accounting estimates and judgements *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(c) Assessment of impairment of non-current assets (Continued)

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 profit or loss in future years.

(d) 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 fertilisers 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 fertilisers under development, costs are identifiable and there is an ability to see or use the pesticides and fertilisers 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 fertilisers involves management's judgment and estimation. If there are significant changes from previous estimates, any write off of capitalised product development costs would affect profit or loss in future periods.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

(Expressed in Hong Kong dollars)

37. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 30 June 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

Amendment to HKAS 1	Presentation of Financials Statements: Capital Disclosures [1]
HKAS 23 (Revised)	Borrowing Costs [2]
HKFRS 7	Financial Instruments: Disclosures [1]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment [3]
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions [4]
HK(IFRIC)-Int 12	Service Concession Arrangements [5]
HK(IFRIC)-Int 13	Customer Loyalty Programmes [6]
HK(IFRIC)-Int 14	HKFRS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [5]

[1] *Effective for annual periods beginning on or after 1 January 2007*
[2] *Effective for annual periods beginning on or after 1 January 2009*
[3] *Effective for annual periods beginning on or after 1 November 2006*
[4] *Effective for annual periods beginning on or after 1 March 2007*
[5] *Effective for annual periods beginning on or after 1 January 2008*
[6] *Effective for annual periods beginning on or after 1 July 2008*