China Agrotech Holdings Limited

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

2010
ANNUAL REPORT

Nitrogenous fertilizer

Phosphorous fertilizer

Potash fertilizer

Compound fertilizer

Pesticides

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Corporate Information

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 Kin Tak, *CPA, FCCA*

COMPANY SECRETARY
Mr. Tong Hing Wah, *CPA, FCCA*

AUTHORISED REPRESENTATIVES
Mr. Wu Shaoning
Mr. Tong Hing Wah, *CPA, FCCA*

AUDIT COMMITTEE
Mr. Wong Kin Tak, *CPA, FCCA (Chairman)*
Mr. Lam Ming Yung
Mr. Zhang Shaosheng

REMUNERATION COMMITTEE
Mr. Wu Shaoning *(Chairman)*
Mr. Zhang Shaosheng
Mr. Wong Kin Tak, *CPA, FCCA*

AUDITOR
CCIF CPA Limited

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
HSBC Trustee (Cayman) Limited
PO Box 484, HSBC House
68 West Bay Road
Grand Cayman, KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Hong Kong Registrars Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 2706, 27th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Five Years Financial Summary

	Years ended 30 June				
	2006 *HK$'000*	2007 *HK$'000*	2008 *HK$'000*	2009 *HK$'000*	**2010** *HK$'000*
Turnover	2,286,255	2,552,044	2,894,984	3,178,420	**3,362,029**
Cost of sales	(2,122,132)	(2,317,068)	(2,608,179)	(2,966,047)	**(3,183,660)**
Gross profit	164,123	234,976	286,805	212,373	**178,369**
Valuation gains/(losses) on investment properties	818	5,064	(9,594)	595	**–**
Other revenue and other net income	18,596	24,682	41,999	44,767	**39,619**
Distribution costs	(37,618)	(74,231)	(98,335)	(76,757)	**(48,764)**
Administrative expenses	(58,373)	(67,235)	(73,792)	(57,650)	**(73,374)**
Other expenses	(3,330)	(6,026)	(1,222)	(9,790)	**(4,161)**
Write down of inventories	–	–	–	(24,510)	**(5,847)**
Loss on disposal of subsidiaries	–	–	–	(12,226)	**(8,474)**
Profit from operations	84,216	117,230	145,861	76,802	**77,368**
Finance costs	(17,490)	(31,513)	(43,803)	(51,069)	**(30,093)**
Profit before taxation	66,726	85,717	102,058	25,733	**47,275**
Income tax	(6,048)	(8,839)	(15,788)	(13,816)	**(16,394)**
Profit for the year	60,678	76,878	86,270	11,917	**30,881**
Attributable to:					
Owners of the Company	61,627	80,592	82,423	11,067	**29,793**
Non-controlling interests	(949)	(3,714)	3,847	850	**1,088**
	60,678	76,878	86,270	11,917	**30,881**

	As at 30 June				
	2006 *HK$'000*	2007 *HK$'000*	2008 *HK$'000*	2009 *HK$'000*	**2010** *HK$'000*
Total non-current assets	229,276	228,180	235,729	257,793	**255,606**
Total current assets	1,208,902	1,880,139	2,115,613	2,274,415	**2,568,670**
Total current liabilities	(1,013,132)	(1,545,928)	(1,654,745)	(1,824,765)	**(1,903,947)**
Net current assets	195,770	334,211	460,868	449,650	**664,723**
Total assets less current liabilities	425,046	562,391	696,597	707,443	**920,329**
Non-current liabilities	(971)	–	–	–	**(34,881)**
Net assets	424,075	562,391	696,597	707,443	**885,448**
Total equity attributable to owners of the Company	417,762	555,967	678,950	687,184	**864,597**
Non-controlling interests	6,313	6,424	17,647	20,259	**20,851**
Total equity	424,075	562,391	696,597	707,443	**884,448**

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 2010 for their consideration.

TURNOVER AND PROFITS

For the year ended 30 June 2010, the consolidated turnover of the Group was approximately HK$3,362,029,000 (2009: HK$3,178,420,000), representing a growth of approximately 6%; and the profit attributable to owners of the Company was approximately HK$29,793,000 (2009: HK$11,067,000), representing an increase of approximately 169%. Excluding the effect of employee share-based compensation expense, net profit was approximately HK$37,833,000 (2009: HK$11,067,000), representing an increase of approximately 242%.

BUSINESS REVIEW

As a result of the global financial turmoil and the sharp fall in commodity prices in 2008, market demand for the second half of 2009 was still weak, but there were signs of recovery in the fertilizer market during the first half of 2010. Leveraging on its extensive experience in management and marketing, and also prompt and decisive adjustment to its strategy, annual turnover reached HK$3.36 billion, representing a moderate growth of around 6% over the previous year. However, against the impact of weak market demand, overcapacity of fertilizers, successive bad weather and disaster in the Northern and Southern regions of China, the Group experienced a fall in gross profit margins averaging approximately 5.3% (2009: approximately 6.7%). Amid the unfavorable operating environment, China Agrotech actively controlled its cost and inventory level, and had achieved satisfactory result, making our net profit for the year increase by 169% to HK$29,793,000.

During the financial year under review, thanks to the successful implementation of the centralized purchase and distribution strategy, the Group's distribution network demonstrated the effect of consolidation under the difficult environment and contributed to the steady growth of the Group's turnover. During the year, as the prices of agricultural resources products in general were still weak, sales promotion with thin margins remained our prime target. Though the price stayed low, the Group closely monitored the market trend of pricing and shortened turnover of inventory to reap profits as soon as possible. As a result, aggregate sales volume of fertilizers reached 1.07 million tonnes (2009: 1.06 million tonnes), which is comparable with last year. Given the thin profit margin, the rise in turnover co-existed with the inevitable fall in gross profit of various products. During the financial year under review, the Group recorded a gross profit of approximately HK$178 million (2009: approximately HK$212 million), representing a decline of approximately 16% over the previous year. Overall gross profit margin also fell from approximately 6.7% last year to approximately 5.3% this year. Average gross profit margin of agricultural resources products that made up 77% of total turnover fell from approximately 7.3% last year to approximately 5.3% this year.

As to individual product, due to the thin margin of nitrogenous fertilizer, the Group kept reducing the sales in this category so as to shun its downside risk. For phosphorous fertilizer, potash fertilizer and pesticides, as the Group has actively developed its supply and sales channels over the years and its distribution network generated further economic benefits, sales of these products have been on the rise, and has gathered growth momentum to the overall turnover.

CORPORATE STRATEGIES AND PROSPECTS

Despite prices of various fertilizers are currently at a relatively low level, price trend for the second half of 2010 and next year depends on a number of factors which include the speed of the global economic recovery and the demand for foodstuff. However, the PRC government has been working on deepening the agricultural reform, increasing farmers' income and stepping up its efforts to address the "three rural (rural areas, farmers and agriculture) issues". In particular, the 2010 No. 1 Document issued by the Central Government emphasized a continuous increase in the input in the agricultural sector in terms of total volume, as well as a steady growth in proportion. The Central Government also takes every measure to increase the grain production, which will speed up the pace of resumption of the fertilizer market in the coming years and provide the industry with greater room for development.

In the coming year, the Group will continue to strengthen its risk management and will take a prudent approach in the hope of steering clear of adversities. Besides, overcapacity has prompted a gradual consolidation in the domestic chemical fertilizer industries. The Group also takes this opportunity to effect a restructuring to reinforce its core competitiveness by consolidating existing businesses while setting new development direction.

Looking forward, in addition to the on-going pursuit of its centralized purchase and distribution policy and optimization of product mix, the Group will actively strengthen strategic cooperation with upstream brandname suppliers to further explore quality resources thereby increasing its stability and sustainability.

Furthermore, the Group is actively seeking investment opportunities with a view to diversifying the Group's agriculture business, enlarging the Group's asset base and expanding its source of income. Among others, China Agrotech announced in July 2010 the acquisition of a landscaping seedlings enterprise in Shanxi, which had been approved by our shareholders at the extraordinary general meeting held this month. The landscaping seedlings enterprise will soon become our new business scope, and will bring new growth momentum to the Group. We are optimistic about the long-term development of the Group and will better position ourselves to take on the challenges and opportunities arising in the year to come.

APPRECIATION

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

WU SHAONING
Chairman

Hong Kong, 25 October 2010

Management Discussion and Analysis

OVERALL RESULTS

For the year ended 30 June 2010, the Group's consolidated turnover was approximately HK$3,362,029,000 (2009: HK$3,178,420,000) and net profit attributable to owners of the Company was approximately HK$29,793,000 (2009: HK$11,067,000), representing a growth of about 6% and 169% respectively as compared to those of the previous financial year. Net profit, excluding the impact of valuation loss of employees share-based compensation expense, was approximately HK$37,833,000 (2009: HK$11,067,000), representing an increase of about 242%.

The major factors causing the increase in net profit for the year were the decrease in operating expenses and the amount of write-down of inventories, which diminished the effect of decrease in overall gross profit during the year as a result of shrink in gross profit margins of agricultural resources products.

The overall decrease in gross profit margin of agricultural resources products from approximately 7.3% last year to 5.3% this year was mainly due to the fact that the market demand was yet to fully resume and as such, the extent of drop in selling prices of the Group's products was greater than the decrease in cost of purchase, and hence, the overall gross profit margin was shrunk. Although the restoration of market demand was slow during the year, as a result of the Group's successful sales strategies and experience in grasping market trend, the Group's turnover was increased in both agricultural resources operation and non-agricultural resources products trading operation.

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

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

	2010		2009	
	Turnover HK$'000	**Percentage of the total turnover**	Turnover HK$'000	Percentage of the total turnover
Agricultural resources operation				
nitrogenous fertilizer	**320,887**	**10%**	416,646	13%
phosphorous fertilizer	**452,167**	**13%**	422,243	13%
potash fertilizer	**507,764**	**15%**	466,553	15%
compound fertilizer	**825,698**	**25%**	827,317	26%
pesticides	**474,565**	**14%**	402,902	13%
Agricultural resources products (subtotal)	**2,581,081**	**77%**	2,535,661	80%
Trading of non-agricultural resources products	**780,948**	**23%**	642,759	20%
Total	**3,362,029**	**100%**	3,178,420	100%

Aggregate sales volume of fertilizers, including nitrogenous fertilizer, phosphorous fertilizer, potash fertilizer and compound fertilizer, increased slightly by about 1% from approximately 1,060,000 tonnes last year to approximately 1,070,000 tonnes this year. The aggregate turnover of fertilizers for this year was approximately HK$2.107 billion, representing a slight decrease of about 1% as compared to approximately HK$2.133 billion last year.

For pesticides, turnover increased by approximately 18% from approximately HK$403 million last year to approximately HK$475 million this year.

Turnover for the trading of non-agricultural resources products increased from approximately HK$643 million last year to approximately HK$781 million this year.

Gross profit for the year amounted to approximately HK$178,369,000, representing a decline of approximately 16% as compared to that of the last year. Overall gross profit margin of the Group decreased from approximately 6.7% last year to approximately 5.3% this year.

AGRICULTURAL RESOURCES OPERATION

(1) Nitrogenous fertilizer

Being the most commonly used fertilizer, the supply of nitrogenous fertilizer outstrips its demand, characterizing the trading environment as volume-oriented with thin gross profit margins. During the year under review, the trading profit margin was even thinner in the market and the Group recorded a gross profit margin of approximately 1.8% (2009: 2.8%). Therefore, in order to better allocate the Group's working capital resources and minimize operational risks, the Group reduced the trading of nitrogenous fertilizer and therefore, the sales volume decreased to approximately 180,000 tonnes (2009: 230,000 tonnes) while turnover dropped by 23% to HK$321 million (2009: HK$417 million).

(2) Phosphorous fertilizer

During the financial year under reivew, the market demand for phosphorous fertilizer was comparable to that of the last year. The Group leveraged on its experience in phosphorous fertilizer and increased such trading while shortened the stock turnover days so as to minimize operational risk. As a result, the sales volume of phosphorous fertilizer increased by 6% to approximately 350,000 tonnes (2009: 330,000 tonnes), while turnover increased by 7% to HK$452 million (2009: HK$422 million). However, the gross profit margin decreased from approximately 7.5% last year to approximately 4.2% this year due to the disposal of a phosphorous fertilizer factory during the year as a part of the Group's manufacturing facilities reengineering plan, and hence, only trading with a relatively thinner margin resulted in the drop in gross profit margin.

(3) Potash fertilizer

During the financial year under review, there was a sharp fall in domestic demand for potash fertiliser, causing an obvious drop in market price. Nevertheless, during the year, the Group continued to leverage on the advantages of central purchase and its own network to expand the operation of potash fertiliser, and successfully sourced a stable supply for potash fertiliser for the tobacco market. Therefore, sales volume of potash fertiliser for the year increased by 18% to 150,000 tonnes (2009: 127,000 tonnes) while turnover increased by 9% to approximately HK$508 million (2009: HK$467 million). However, due to the drop in selling prices, the gross profit margin decreased from approximately 5.1% last year to 3.8% this year.

(4) Compound fertilizer

The Group provides specific compound fertilizer for different crops through production from its own plant and through procurement. During the year, the Group adjusted the product mix of compound fertilizer products to accommodate market demand. Sales volume increased from approximately 374,000 tonnes last year to approximately 390,000 tonnes this year. Turnover of approximately HK$826 million was comparable to HK$827 million last year, while gross profit margin decreased from approximately 8.2% last year to approximately 5.2% this year due to market factors.

(5) Pesticides

For pesticides, the Group has a large variety of high-value-added pesticide products which are developed through collaboration with different research institutes. Those pesticide products supplied to the market are either manufactured by the Group's own plants or through procurement and distribution. During the year, turnover increased by approximately 18% to approximately HK$475 million (2009: HK$403 million) because of the Group's increase in sales of lower margin products. Coupled with the effect of drop in market prices, the average gross profit margin decreased from approximately 12.4% last year to approximately 10.4% this year.

As a part of the Group's restructuring plan of the manufacturing operation, the Group disposed of two subsidiaries engaged in the production of phosphorous fertilisers and compound fertilisers respectively, and recorded a loss of approximately HK$8.3 million during the year. The Group also acquired 10% of the issued share capital of a PRC pesticides manufacturer at a consideration of approximately HK$25.4 million, as the Group's strategic investment.

TRADING OF NON-AGRICULTURAL RESOURCES PRODUCTS

For the trading of non-agricultural resources products, orders were increased due to gradual resumption of worldwide commodities market. Hence turnover and gross profit increased by 21% to approximately HK$781 million (2009: HK$643 million) and 56% to HK$42.3 million (2009: HK$27.2 million) respectively. Gross profit margin also increased from approximately 4.2% last year to approximately 5.4% this year due to the gradual increase in market prices of commodities and resources products during the year.

LIQUIDITY AND FINANCIAL RESOURCES

Financial resources

The Group generally finances its operations with internally generated cashflow and bank facilities for its capital expenditures and other capital requirements.

As at 30 June 2010, cash and cash equivalents and restricted bank deposits of approximately HK$436,115,000 included HK$747,000 which was denominated in Hong Kong dollars, HK$431,210,000 which was denominated in Renminbi and HK$4,158,000 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 the exchange rates between Renminbi and Hong Kong dollar/US dollar remained 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.

During the year, the Company successfully raised funds from placing of new shares and convertible bonds, which amounted to an aggregate net proceeds of approximately HK$105.8 million. The Company also raised additional funds of HK$58.9 million from the exercise of subscription rights attaching to unlisted warrants by certain warrant-holders. The funds raised were used as general working capital of the Group.

Borrowings and banking facilities

As at 30 June 2010, the Group had bank loans of approximately HK$544,927,000 (approximately HK$485,014,000 was denominated in Renminbi and approximately HK$59,913,000 was denominated in US/Euro dollars) bearing interest at rates ranging from 1.1% to 7.5% per annum. As at 30 June 2010, the Group had bills payable of approximately HK$928 million which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of approximately HK$318 million which was also denominated in Renminbi.

As at 30 June 2010, the Group had convertible bonds with outstanding principal amount of HK$29,880,000 (due in July 2011) which was denominated in Hong Kong dollars and bore interest at 3% per annum.

As at 30 June 2010, the Group's maintained a gearing ratio of approximately 66%. This was based on the division of the total amount of bank loans and convertible bonds (liability components) by total equity attributable to owners of the Company as at 30 June 2010. The Directors, taking into account of the nature and scale of operations of the Group, considered that the gearing ratio as at 30 June 2010 was healthy.

Commitments

As at 30 June 2010, the Group had no significant outstanding contracted capital commitments. As at 30 June 2010, the Group had operating lease commitments of approximately HK$24,236,000.

Contingent liabilities

As at 30 June 2010, the Group had no material contingent liabilities.

REMUNERATION POLICIES AND SHARE OPTION SCHEME

The Group incurred total salaries and other remunerations (excluding employees share-based compensation expense) of approximately HK$25.5 million with an average number of about 900 staff during the year ended 30 June 2010.

Remuneration packages comprise salary, mandatory provident fund and year-end bonus based on individual merits. A share option scheme (the "Scheme") was adopted by the Company pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31 December 2001. The Scheme limit was refreshed pursuant to a resolution passed at the extraordinary general meeting of the Company held on 11 February 2009. During the year ended 30 June 2010, options in respect of 48,970,000 shares of the Company were granted to the relevant participants under the Scheme (2009: nil).

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wu Shaoning

aged 45, is the Chairman, Chief Executive Officer and founder of the Group. Mr. Wu is also the Chairman of the Remuneration Committee. He is a director of various subsidiaries of the Company. Mr. Wu is responsible for the overall management and operation of the Group, as well as its strategic planning and business development. He graduated from the University of Xiamen with a bachelor 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 18 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. Yang Zhuoya

aged 45, is the Managing Director and co-founder of the Group. 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. He holds a doctorate degree in agricultural chemistry and plant nutrition. Mr. Yang has been nominated as the standing director of 福建省土壤肥料學會 (Soil and Fertilizer Academy of Fujian Province) for year 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Ming Yung

aged 46, was appointed as an Independent Non-executive Director of the Company in September 1999. He is also a member of the Audit Committee. Mr. Lam graduated from the School of Law of Shanghai Eastern Chinese College of Politics and Jurisprudence (now known as East China University of Political Science and Law) 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 Chief PRC Consultant of Corporate Finance and Foreign Legal Consultant (PRC) in the Hong Kong office of Sidley Austin LLP. Mr. Lam is an independent non-executive director of Welling Holding Limited and a non-executive director of China Mining Resources Group Limited, both companies are listed on The Stock Exchange of Hong Kong Limited. He has been an independent director of China Lifestyle Food & Beverages Group Limited, which was delisted from Singapore Exchange Limited on 6 May 2010.

Mr. Zhang Shaosheng

aged 59, was appointed as an Independent Non-executive Director of the Company in August 2004. Mr. Zhang is also members of the Audit Committee and the Remuneration Committee. He is a professor of the College of Plant Protection of Fujian Agriculture and Forestry University. Mr. Zhang graduated from Fujian Agricultural College with a bachelor's degree in agriculture specialised in plant protection in 1975. He has 35 years of experience in the teaching of plant protection.

Mr. Wong Kin Tak

aged 38, was appointed as an Independent Non-executive Director of the Company on 1 March 2010. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee. Mr. Wong graduated from Hong Kong Baptist University with a bachelor's degree in business administration (majoring in accounting) in 1994. He is a certified public accountant of Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. He has over 16 years of experience in auditing, accounting and financial management. Mr. Wong is currently engaged in financial consulting work for an enterprise in the Mainland China. He has about 7 years of experience in acting as financial controller for companies listed in Hong Kong and Singapore.

SENIOR MANAGEMENT

Mr. Tong Hing Wah, Raymond

aged 39, 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 17 years of experience in auditing, accounting and financial management. Mr. Tong joined the Group in 1999 and is primarily responsible for the Company's corporate finance, financial reporting and regulatory compliance.

Mr. Tse Wai Wang, William

aged 47, is the chief operating officer of the Group. He graduated from Murdoch University with a master degree in business administration. Mr. Tse has over 21 years of experience in investment, corporate management, mergers and acquisition, market development and asset management. He joined the Group in September 2008 and is responsible for the Group's operation, investment planning and business development.

Ms. Yeh Jing Ping

aged 59, 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 26 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 41, is the business development manager of the Group. He graduated from Central China Normal University with a degree in arts. Mr. Zhao has over 18 years of experience in brand name management and business development. He joined the Group in 2002 and is responsible for brand name management and business development of the Group's agricultural resources trading business.

Ms. Chen Xiao Fang

aged 46, 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 26 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 37, 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 17 years of experience in financial management. He joined the Group in March 2003.

Mr. Huang Zhong Geng

aged 43, 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 22 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 2010.

PRINCIPAL ACTIVITIES

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

An analysis of the principal activities of the operations of the Group for the year ended 30 June 2010 is set out in Note 12 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2010 are set out in the consolidated income statement on page 27 of this annual report. No geographical analysis of the Group's turnover and segment results is presented as the Group's turnover and segment results are all derived from business conducted in Mainland China.

DIVIDEND

The Directors have resolved not to recommend the payment of any final dividend for the year ended 30 June 2010 (2009: Nil) and recommend that the retained profits of approximately HK$408,239,000 as at 30 June 2010 be carried forward.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 31 to the financial statements.

RESERVES AND RETAINED PROFITS

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and Note 31 to the financial statements respectively.

As at 30 June 2010, the Company's reserve available for distribution to owners of the Company amounted to approximately HK$197,417,000 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$236,614,000 and contributed surplus of approximately HK$11,527,000, less accumulated losses of approximately HK$50,724,000, which is available for distribution provided that immediately following the date on which the distribution is proposed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 13 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 30 June 2010 are set out in Note 20 to the financial statements.

PENSION SCHEMES

Details of the Group's pension schemes for the year ended 30 June 2010 are set out in Note 33 to the financial statements.

CONNECTED TRANSACTIONS

During the year ended 30 June 2010, there was no transaction which needed to be disclosed as connected transaction in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3.

DIRECTORS

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

Executive Directors:

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

Independent Non-executive Directors:

Mr. Lam Ming Yung
Mr. Zhang Shaosheng
Mr. Wong Chi Wai (resigned on 1 March 2010)
Mr. Wong Kin Tak (appointed on 1 March 2010)

In accordance with Articles 86 and 87 of the Company's Articles of Association, Messrs. Yang Zhuoya, Zhang Shaosheng and Wong Kin Tak will retire 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 Kin Tak, both being the Independent Non-executive Directors of the Company, each entered into a letter of appointment with the Company for an one-year term expiring on 9 August 2011 and 28 February 2011 respectively unless and until terminated by Mr. Zhang Shaosheng and Mr. Wong Kin Tak respectively by giving not less than three months' notice in writing to the Company. They are also subject to retirement from office by rotation and re-election at annual general meeting in accordance with the Company's Articles of Association.

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 Company within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management of the Group are set out on pages 10 to 11.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2010, 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 Issuers (the "Model Code") as set out in the Listing Rules were as follows:

Long positions in shares and underlying shares of the Company

		Number of ordinary shares				Approximate percentage
Name of Director	Nature of interests	Personal interests	Family interests	Corporate interests	Total	of issued share capital
Mr. Wu Shaoning	Interests in issued shares	203,200,000	–	–	203,200,000	31.61%

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 2010, 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.

SHARE OPTION SCHEME

A share option scheme (the "Scheme") was adopted pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31 December 2001 for the primary purpose of providing incentives or rewards to selected participants, and will expire on 30 December 2011. Under the Scheme, the Company may grant options to any participant ("Participant(s)") which includes (i) any employee or proposed employee (whether full time or part time) of the Company, any of its subsidiaries or any entity in which the Group holds an equity interest ("Invested Entity"), including any Executive Director of the Company, any of such subsidiaries or any Invested Entity; (ii) any Non-executive Directors (including Independent Non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity, and for the purposes of the Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of Participants, to subscribe for shares of the Company.

The total number of shares in respect of which options may be granted under the Scheme must not exceed 10% of the shares of the Company in issue as at the adoption date ("Scheme Mandate"). Pursuant to a resolution passed at the extraordinary general meeting of the Company held on 11 February 2009, a refreshment of the Scheme Mandate was approved. The total number of shares to be allotted and issued pursuant to the grant or exercise of the options under the Scheme shall not exceed 10% of the total number of shares in issue as at 11 February 2009. As at the date of this report, the total number of shares available for issue under the Scheme is 48,676,521 shares (comprising 48,670,000 shares to be issued upon exercise of the options granted and remain unexercised and 6,521 shares available for further granting of options under the Scheme), which represent approximately 7.57% of the issued share capital of the Company as at the date of this report. 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 2009	Granted during the year *(Note 1)*	Exercised during the year	Lapsed/ cancelled during the year *(Note 2)*	Outstanding as at 30 June 2010	Date of grant	Exercisable period	Exercise price per share *HK$*
Employees:								
In aggregate	800,000	–	400,000	–	400,000	01/12/2003	01/01/2004 – 30/12/2011	0.55
	–	48,970,000	700,000	–	48,270,000	27/07/2009	27/07/2009 – 30/12/2011	0.72
Total	800,000	48,970,000	1,100,000	–	48,670,000			

Notes:

1. The value of share options granted during the year based on the Black-Scholes model is set out in Note 28(b) to the financial statements.

2. No option has been lapsed or cancelled during the year ended 30 June 2010.

3. The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised by the employees was HK$0.84.

MAJOR SUPPLIERS AND CUSTOMERS

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

COMPETING INTERESTS

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

UNLISTED WARRANTS

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

The warrantholders have the right to exercise the subscription rights attaching to the warrants, in whole or in part, at the subscription price of HK$1.00 per subscription share at any time within 2 years commencing from the date of issue of the warrants. The warrants are not listed on the Stock Exchange or any other stock exchanges.

During the year, a total of 58,900,000 warrants were exercised and an aggregate of 58,900,000 new shares of the Company were issued to the warrantholders in August and September 2009. The remaining 25,100,000 unexercised warrants were expired and cancelled on 7 September 2009. The net proceeds from the issue of the new shares of approximately HK$58.9 million was used as general working capital of the Group.

PLACING OF SHARES AND CONVERTIBLE BONDS

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

On 4 June 2009, the Company also entered into a convertible bonds placing agreement with the Placing Agent whereby the Company would place and the Placing Agent would procure independent subscribers for subscription of the 3% coupon convertible bonds of the Company ("Convertible Bonds") in an aggregate maximum principal amount of HK$29,970,000. The holders of the Convertible Bonds are entitled to exercise the conversion rights attaching to the Convertible Bonds, in whole or in part, at the conversion price of HK$0.90 per share at any time within 2 years commencing from the date of issue of the Convertible Bonds, to convert the Convertible Bonds into ordinary shares of the Company. The placing of Convertible Bonds in an aggregate principal amount of HK$29,970,000 was completed on 24 July 2009. The net proceeds from the placing of approximately HK$29.8 million was used as general working capital of the Group. The Convertible Bonds are not listed on the Stock Exchange or any other stock exchanges. During the year, 100,000 new shares of the Company were allotted to a holder of the Convertible Bonds upon conversion.

(ii) On 19 January 2010, the Company entered into a conditional placing agreement with Kingston Securities Limited ("KSL"), the placing agent, whereby the Company would place, through KSL, a maximum of 50,000,000 new shares of the Company to independent placees at a price of HK$0.95 per placing share of the Company.

The placing of 50,000,000 new shares of HK$0.10 each in an aggregate amount of HK$47,500,000 was completed on 28 January 2010 and was issued under the general mandate approved at the Company's annual general meeting held on 4 December 2009. The net proceeds from the placing of approximately HK$46.5 million was used as general working capital 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 2010. 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.

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.

EVENTS AFTER THE REPORTING PERIOD

On 22 June 2010, the Company, the vendors and the warrantors entered into a sale and purchase agreement (the "Agreement", as amended by the supplemental agreement dated 27 July 2010) in relation to the acquisition of 100,000 ordinary shares (the "Sale Shares") of Present Sino Limited ("PSL"). Pursuant to the Agreement, the Company agreed to acquire from the vendors the Sale Shares, representing all issued shares in PSL, at an aggregate consideration of HK$1,000,000,000 to be satisfied by the issue of promissory notes and convertible bonds. Subject to and in accordance with the terms and conditions of the Agreement, PSL shall become a wholly-owned subsidiary of the Company upon completion. The principal business of the PSL and its subsidiaries is, amongst other things, research and development, nursing, planting and sales of landscaping seedlings, led by whitebark pine and other rare seedlings in the PRC.

The Agreement constitutes a very substantial acquisition and connected transaction for the Company under the Listing Rules.

The Agreement and the transactions contemplated thereunder have been approved by the independent shareholders at the extraordinary general meeting of the Company held on 15 October 2010. Details of the Agreement and the transactions contemplated thereunder are set out in the circular dated 25 September 2010 despatched to the shareholders.

Details of other events after the reporting period are set out in Note 38 to the financial statements.

AUDITOR

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

On behalf of the Board
WU SHAONING
Chairman

Hong Kong, 25 October 2010

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 of directors (the "Board") of the Company considers that the Company has complied throughout the year ended 30 June 2010 with code provisions of the Code on Corporate Governance 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; (ii) one of the Independent Non-executive Directors is not appointed for specific term; and (iii) a director appointed to fill the causal vacancy during the year will retire at the forthcoming annual general meeting to be held in December 2010 instead of retiring at the extraordinary general meeting held on 15 October 2010.

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 Company and its subsidiaries (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 2010, 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 Kin Tak.

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 Kin Tak. 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 Kin Tak has the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2).

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 2010, five full Board meetings have been held to approve, inter alia, interim and final results, change of Independent Non-executive Directors and the very substantial acquisition and connected transaction. The attendance of each Director, on named basis and by category, at Board meetings and Board committee meetings during the year is set out below:

	Number of meeting attended/ Number of meeting held		
Directors	**Board**	**Remuneration Committee**	**Audit Committee**
Executive Directors			
Mr. Wu Shaoning *(Chairman and the Chief Executive Officer)*	11/11	3/3	–
Mr. Yang Zhuoya	11/11	–	–
Independent Non-executive Directors			
Mr. Lam Ming Yung	5/11	–	2/2
Mr. Zhang Shaosheng	10/11	3/3	2/2
Mr. Wong Chi Wai (resigned on 1 March 2010)	7/11	3/3	1/2
Mr. Wong Kin Tak (appointed on 1 March 2010)	4/11	–	1/2

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.

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.

The CG Code stipulates that any Director appointed to fill the casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Pursuant to the Articles, any Director appointed to fill a casual vacancy shall hold office until the next following annual general meeting. The Board is of the view that the forthcoming annual general meeting to be held in December 2010 is close to the extraordinary general meeting held on 15 October 2010. Hence, Mr. Wong Kin Tak who was appointed to fill the causal vacancy during the year would retire and subject to re-election at the forthcoming annual general meeting.

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 Kin Tak, were appointed for a specific term of one year while Mr. Lam Ming Yung was not appointed for any specific term, but subject to retirement by rotation once every three years at annual general meetings of the Company in accordance with the Articles.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 2010.

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 founder 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 has not established 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 ended 30 June 2010, a Board meeting was held on 1 March 2010 to approve the appointment of Mr. Wong Kin Tak as an Independent Non-executive Director of the Company with effect from 1 March 2010.

In accordance with the Articles, one-third of the Directors will retire from office at the Company's annual general meeting. In accordance with Articles 86 and 87 of the Articles, Mr. Yang Zhuoya, Mr. Zhang Shaosheng and Mr. Wong Kin Tak will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-elections. The Board recommended the re-appointment of the Directors standing for the aforesaid re-election.

Remuneration Committee

A remuneration committee of the Company (the "Remuneration Committee") was established on 1 July 2005 with written terms of reference in compliance of the code provision in B.1 of the CG Code. The terms of reference of the Remuneration Committee are available from the Company Secretary at any time. The Remuneration Committee currently comprises an Executive Director, namely, Mr. Wu Shaoning and two Independent Non-executive Directors, namely Mr. Zhang Shaosheng and Mr. Wong Kin Tak. Mr. Wu Shaoning 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 28 to the financial statements of this annual report.

The Remuneration Committee meets at least once a year. During the year, three Remuneration Committee meetings were held to, inter alia, consider the grant of share options under the Company's share option scheme and review directors' remuneration.

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

Audit Committee

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

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

The scope of such examinations and reviews include finance, operations, regulatory compliance and risk management. Each member of the Audit Committee has unrestricted access to the external auditors and all senior management of the Group in order to discharge its responsibilities. Save as disclosed above, the Audit Committee has reviewed the audited financial statements of the Company for the year ended 30 June 2010.

During the year ended 30 June 2010, 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. During the year ended 30 June 2010, the Audit Committee has, among other things, discussed and reviewed financial reporting matters, including the interim and annual consolidated financial statements and reports of the Group before these statements and reports were submitted to the Board for approval; assessed the effectiveness of the audit process of the external auditors; and reviewed the effectiveness of the Group's internal control system.

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.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility 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 2010, 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 2010 by shareholders at the annual general meeting held on 4 December 2009 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 2010 have been audited by CCIF. The statement of CCIF in respect of their reporting responsibilities for the financial statements is set out in the Independent Auditors' Report.

An amount of HK$1,250,000 (2009: HK$1,300,000) was charged to the financial statements of the Company and subsidiaries for the year ended 30 June 2010 for CCIF's statutory audit. Except for the engagement of CCIF in June 2010 with a fee amounted to HK$750,000 as the reporting accountants in respect of the Company's very substantial acquisition and connected transaction announced on 27 July 2010, no other significant non-audit service was provided by CCIF for the Company during the two years ended 30 June 2009 and 2010.

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 2010, the Audit Committee assessed the internal control environment of the Group and reviewed the internal control procedural manual of the Group and concluded that the internal control systems are effective and efficient.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

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

Independent Auditor's Report

CCIF CPA LIMITED
34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

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

We have audited the consolidated financial statements of China Agrotech Holdings Limited (the "Company") set out on pages 27 to 114, which comprise the consolidated and Company statement of financial position as at 30 June 2010 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 judgement, 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 2010 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 2010

Betty P.C. Tse
Practising Certificate Number P03024

Consolidated Income Statement

For the year ended 30 June 2010
(Expressed in Hong Kong dollars)

	Note	2010 HK$'000	2009 HK$'000
Turnover	4	**3,362,029**	3,178,420
Cost of sales		**(3,183,660)**	(2,966,047)
Gross profit		**178,369**	212,373
Valuation gains on investment properties	14	**–**	595
Other revenue and other net income	5	**39,619**	44,767
Distribution costs		**(48,764)**	(76,757)
Administrative expenses		**(73,374)**	(57,650)
Other expenses		**(4,161)**	(9,790)
Write down of inventories	21(b)	**(5,847)**	(24,510)
Loss on disposal of subsidiaries	32(b) & (c)	**(8,474)**	(12,226)
Profit from operations		**77,368**	76,802
Finance costs	6(a)	**(30,093)**	(51,069)
Profit before taxation	6	**47,275**	25,733
Income tax	7(a)	**(16,394)**	(13,816)
Profit for the year		**30,881**	11,917
Attributable to:			
Owners of the Company	31(a)	**29,793**	11,067
Non-controlling interests	31(a)	**1,088**	850
Profit for the year	31(a)	**30,881**	11,917
Earnings per share	11		
Basic		**HK4.98 cents**	HK2.26 cents
Diluted		**HK4.92 cents**	HK2.26 cents

The accompanying notes form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2010
(Expressed in Hong Kong dollars)

	Note	2010 HK$'000	2009 HK$'000
Profit for the year		**30,881**	11,917
Other comprehensive income for the year			
Exchange differences on translation of financial statements of overseas subsidiaries	*31(a)*	**2,670**	(1,712)
Reclassification adjustment for exchange difference relating to disposal of a jointly-controlled entity	*31(a)*	**–**	(1,319)
Reclassification adjustment for exchange difference relating to disposal of overseas subsidiaries	*31(a)*	**(157)**	–
		2,513	(3,031)
Income tax relating to components of other comprehensive income		**–**	–
Other comprehensive income for the year, net of tax		**2,513**	(3,031)
Total comprehensive income for the year		**33,394**	8,886
Attributable to:			
Owners of the Company		**32,306**	8,234
Non-controlling interests		**1,088**	652
		33,394	8,886

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

At 30 June 2010
(Expressed in Hong Kong dollars)

	Note	2010 HK$'000	2010 HK$'000	2009 HK$'000	2009 HK$'000
Non-current assets					
Property, plant and equipment	*13*		**109,150**		82,676
Investment properties	*14*		**–**		20,557
Lease premiums for land	*15*		**3,253**		8,538
Intangible assets	*16*		**21,404**		32,917
Goodwill	*17*		**81,341**		85,881
Available-for-sale financial assets	*18*		**26,801**		–
Other deposit	*19*		**13,657**		27,224
			255,606		257,793
Current assets					
Lease premiums for land	*15*	**96**		240	
Inventories	*21*	**94,131**		147,882	
Trade and other receivables	*22*	**2,037,036**		1,704,977	
Trading securities	*23*	**1,292**		2,989	
Restricted bank deposits	*24*	**340,881**		305,706	
Cash and cash equivalents	*25*	**95,234**		112,621	
		2,568,670		2,274,415	
Current liabilities					
Trade and other payables	*26*	**1,316,047**		1,482,729	
Bank loans	*27*	**539,009**		304,433	
Tax payable	*29*	**47,995**		37,603	
Convertible bonds	*30*	**896**		–	
		(1,903,947)		(1,824,765)	
Net current assets			**664,723**		449,650
Total assets less current liabilities			**920,329**		707,443
Non-current liabilities					
Bank loans			**5,918**		–
Convertible bonds	*30*		**28,963**		–
			(34,881)		–
NET ASSETS			**885,448**		707,443

	Note	2010 HK$'000	2009 HK$'000
CAPITAL AND RESERVES	*31(a)*		
Share capital		**64,277**	48,977
Reserves		**800,320**	638,207
Total equity attributable to owners of the Company		**864,597**	687,184
Non-controlling interests		**20,851**	20,259
TOTAL EQUITY		**885,448**	707,443

Approved and authorised for issue by the board of directors on 25 October 2010.

WU SHAONING
Director

YANG ZHUOYA
Director

The accompanying notes form part of these financial statements.

Statement of Financial Position

At 30 June 2010
(Expressed in Hong Kong dollars)

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Interests in subsidiaries	20	**302,159**	140,554
Current assets			
Other receivables	22	**92**	74
Cash and cash equivalents	25	**12**	–
		104	74
Current liabilities			
Other payables	26	**1,411**	1,625
Convertible bonds	30	**896**	–
		(2,307)	(1,625)
Net current liabilities		**(2,203)**	(1,551)
Total assets less current liabilities		**299,956**	139,003
Non-current liabilities			
Convertible bonds	30	**(28,963)**	–
NET ASSETS		**270,993**	139,003
CAPITAL AND RESERVES	*31(b)*		
Share capital		**64,277**	48,977
Reserves		**206,716**	90,026
TOTAL EQUITY		**270,993**	139,003

Approved and authorised for issue by the board of directors on 25 October 2010.

WU SHAONING
Director

YANG ZHUOYA
Director

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2010
(Expressed in Hong Kong dollars)

	Note	Attributable to owners of the Company												
		Share capital	Share premium	Capital reserve	Property revaluation reserve	Exchange reserve	Convertible bonds equity reserve	Employee share-based compen-sation reserve	Other reserves	Warrant reserve	Retained profits	Total	Non-controlling interests	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 July 2008		48,977	114,391	1,188	7,833	85,141	–	–	53,564	2,446	365,410	678,950	17,647	696,597
Profit for the year		–	–	–	–	–	–	–	–	–	11,067	11,067	850	11,917
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong		–	–	–	–	(1,514)	–	–	–	–	–	(1,514)	(198)	(1,712)
Disposal of a jointly-controlled entity	*32(d)*	–	–	–	(7,833)	(1,319)	–	–	–	–	7,833	(1,319)	–	(1,319)
Total other comprehensive income		–	–	–	(7,833)	(2,833)	–	–	–	–	7,833	(2,833)	(198)	(3,031)
Total comprehensive income for the year		–	–	–	(7,833)	(2,833)	–	–	–	–	18,900	8,234	652	8,886
Transactions with owners														
Transfers		–	–	–	–	–	–	–	240	–	(240)	–	–	–
Capital injected by non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	2,383	2,383
Disposal of subsidiaries	*32(c)*	–	–	–	–	–	–	–	–	–	–	–	(423)	(423)
Total transactions with owners		–	–	–	–	–	–	–	240	–	(240)	–	1,960	1,960
At 30 June 2009		48,977	114,391	1,188	–	82,308	–	–	53,804	2,446	384,070	687,184	20,259	707,443

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity *(continued)*

	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Convertible bonds equity reserve HK$'000	Employee share-based compen-sation reserve HK$'000	Other reserves HK$'000	Warrant reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Attributable to owners of the Company											
At 1 July 2009		48,977	114,391	1,188	82,308	–	–	53,804	2,446	384,070	687,184	20,259	707,443
Profit for the year		–	–	–	–	–	–	–	–	29,793	29,793	1,088	30,881
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong		–	–	–	2,608	–	–	62	–	–	2,670	–	2,670
Disposal of subsidiaries	32(b)	–	–	–	(157)	–	–	–	–	–	(157)	–	(157)
Total other comprehensive income		–	–	–	2,451	–	–	62	–	–	2,513	–	2,513
Total comprehensive income for the year		–	–	–	2,451	–	–	62	–	29,793	32,306	1,088	33,394
Transactions with owners													
Placement of new shares	31(c)	9,290	66,690	–	–	–	–	–	–	–	75,980	–	75,980
Issue of share options		–	–	–	–	–	8,040	–	–	–	8,040	–	8,040
Issue of convertible bonds		–	–	–	–	1,378	–	–	–	–	1,378	–	1,378
Transfers		–	–	–	–	–	–	6,355	–	(6,355)	–	–	–
Lapsed of warrant		–	–	–	–	–	–	–	(731)	731	–	–	–
Issue of shares upon exercise of unlisted warrants	31(c)	5,890	54,725	–	–	–	–	–	(1,715)	–	58,900	–	58,900
Disposal of subsidiaries	32(b)	–	–	–	–	–	–	–	–	–	–	(724)	(724)
Issue of shares upon exercise of share options	31(c)	110	729	–	–	–	(115)	–	–	–	724	–	724
Capital injected by non-controlling interests		–	–	–	–	–	–	–	–	–	–	228	228
Issue of shares upon conversion of convertible bonds	31(c)	10	79	–	–	(4)	–	–	–	–	85	–	85
Total transactions with owners		15,300	122,223	–	–	1,374	7,925	6,355	(2,446)	(5,624)	145,107	(496)	144,611
At 30 June 2010		**64,277**	**236,614**	**1,188**	**84,759**	**1,374**	**7,925**	**60,221**	**–**	**408,239**	**864,597**	**20,851**	**885,448**

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2010
(Expressed in Hong Kong dollars)

	Note	2010 HK$'000	2009 HK$'000
Operating activities			
Profit before taxation		**47,275**	25,733
Adjustments for:			
Interest charged on convertible bonds		**1,555**	–
Gain on disposal of trading securities		**(120)**	–
Depreciation on owned fixed assets	*13*	**7,549**	5,478
Gain on disposal of investment property		**(2,433)**	–
Valuation (gains)/losses on investment properties	*14*	**–**	(595)
Amortisation of lease premiums for land	*15*	**258**	306
Amortisation of intangible assets	*16*	**8,067**	12,414
Write down of inventories	*21(b)*	**5,847**	24,510
Impairment losses on trade receivables	*22(a)(ii)*	**4,161**	8,855
Impairment losses on intangible assets	*16*	**–**	798
Loss on disposal of property, plant and equipment		**324**	2,363
Impairment loss on property, plant and equipment	*13*	**–**	137
Reversal of impairment losses of trade debtors and bills receivables	*22(a)(ii)*	**(8,855)**	(7,423)
(Gain)/loss on disposal of jointly-controlled entities	*32(d)*	**–**	(757)
Foreign exchange losses/(gains)		**8,504**	(2,245)
Finance costs	*6(a)*	**28,538**	51,069
Interest income from bank deposits	*5*	**(6,971)**	(7,683)
Loss on disposal of subsidiaries	*32(b)&(c)*	**8,474**	12,226
Other interest income	*5*	**(10,887)**	(8,783)
Equity-settled share-based payment		**8,040**	–
Operating profit before changes in working capital		**99,326**	116,403
Decrease in inventories		**41,275**	104,754
Increase in trade and other receivables		**(362,125)**	(443,758)
(Decrease)/increase in trade and other payables		**(140,680)**	381,801
Decrease in due to jointly controlled entity		**–**	(17,943)
Cash (used in)/generated from operations		**(362,204)**	141,257
PRC enterprise tax paid		**(5,535)**	(4,285)
Net cash (used in)/generated from operating activities		**(367,739)**	136,972
Investing activities			
Interest received		**17,858**	16,466
Payment for the purchase of property, plant and equipment		**(11,882)**	(47,101)
Payment for lease premiums for land		**–**	(4,810)
Purchase of trading securities		**(564)**	(1,828)
Increase in restricted bank deposits		**(35,175)**	(94,820)
Proceeds for disposal of investment property		**22,990**	–
Net cash inflow from disposal of a jointly-controlled entity	*32(d)*	**–**	27,965
Refund of deposit for acquisition of mine		**13,612**	–
Proceeds for disposal of trading securities		**2,376**	–
Net cash outflow for acquisition of a subsidiary	*32(a)*	**(6,062)**	–
Payment for available-for-sale financial assets		**(25,378)**	–
Net cash inflow/(outflow) from disposal of subsidiaries	*32(b)&(c)*	**8,760**	(758)
Net cash used in investing activities		**(13,465)**	(104,886)

	Note	2010 HK$'000	2009 HK$'000
Financing activities			
Capital contribution from non-controlling shareholders		–	2,383
Advances from non-controlling shareholders		–	8,185
Advance from a director	*36(e)*	6,040	590
Repayment to a director	*36(e)*	(16,120)	(90)
Proceeds from new bank loans		928,272	483,551
Proceeds of issuance of convertible bonds		29,769	–
Interest expenses of convertible bonds		(2)	–
Proceeds from placing of shares		75,980	–
Proceeds of issue of shares upon exercise of unlisted warrants		58,900	–
Repayment of bank loans		(690,810)	(554,641)
Interest expenses paid	*6(a)*	(28,538)	(51,069)
Net cash generated from/(used in) financing activities		363,491	(111,091)
Net decrease in cash and cash equivalents		(17,713)	(79,005)
Cash and cash equivalents at 1 July		112,621	192,433
Effect of foreign exchange rate changes		326	(807)
Cash and cash equivalents at 30 June		95,234	112,621
Represented by:			
Cash and bank balances		95,234	112,621

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2010
(Expressed in Hong Kong dollars)

1. GENERAL INFORMATION

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

The consolidated financial statements of the Company for the year ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the "Group"). The Company acts as an investment holding. The subsidiaries are principally engaged in the following businesses:

(a) the trading of fertilizers, pesticides and other agricultural products;

(b) the manufacturing and sales of plant growth regulatory products, pesticides and fertilizers;

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 30 June 2010 comprise the Company and its subsidiaries.

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

- investment property (see note 2(g)
- financial instruments classified as available-for-sale (see note 2(n))

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, 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 judgements about carrying amounts 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 37.

(c) Subsidiaries and non-controlling 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 its 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. When control is lost, any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling interests *(Continued)*

Non-controlling 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. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

Where losses applicable to the non-controlling shareholders exceed the non-controlling shareholders' interest in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling shareholders, are charged against the Group's interest except to the extent that the non-controlling shareholders 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 non-controlling shareholders' share of losses previously absorbed by the Group has been recovered.

Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(p) and (q) depending on the nature of the liability.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(s)).

(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.

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discounted except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly-controlled entity.

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 profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Jointly-controlled entities *(Continued)*

In the Company's statement of financial position, interest in a jointly-controlled entities are stated at cost less impairment losses (see note 2(s)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(s)).

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

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

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

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

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

(f) Construction-in-progress

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Investment property

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

Investment properties are stated in the statement of financial position 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 profit or loss.

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

(h) Leased assets

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

(i) Classification of assets leased to the Group

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Leased assets *(Continued)*

(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 included 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(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(s). Finance charges implicit in the lease payments are charged to profit or loss 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.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

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

(i) Goodwill

Goodwill represents the excess of the cost of a business combination 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 arising on a business combination is allocated to cash-generating units or groups of cash generating units that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(s)). In respect of jointly-controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the jointly-controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 2(s)).

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 profit or loss.

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)*

(j) Intangible assets (other than goodwill)

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

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

Intangible assets that are acquired by the Group are stated in the consolidated statement of financial position at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(s)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss 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 amortisation period and method of amortisation are reviewed annually.

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

(k) Inventories

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Inventories *(Continued)*

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

(l) Trade and other receivables

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

(m) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives quality for cash flow hedge accounting or are effective hedges over 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.

(n) Other investments in equity securities

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

Investments in 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 profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 2(t)(iii) and (v).

Investments in equity securities that do not have a listed market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(s)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Other investments in equity securities *(Continued)*

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At the end of each reporting period, 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 profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(t)(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

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

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

(o) 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 statement of cash flows.

(p) 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(w)(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.

(q) 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 profit or loss over the period of the borrowings, together with any interest and fees payables, using the effective interest method.

(r) Convertible bonds

Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Convertible bonds *(Continued)*

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognized as the liability component is recognized as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognized in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognized in the capital reserve until either the note is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

(s) Impairment of assets

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

Investments in equity securities (other than investments in subsidiaries (see note 2(s)(ii)) 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 the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Impairment of assets *(Continued)*

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

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

– For unlisted 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. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Further cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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 profit or loss. 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.

– For available-for-sale equity securities which are stated at fair value, when a decline in the fair value has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognsied. The amount of the cumulative loss that is recognised in profit or loss 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 profit or loss.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Impairment of assets *(Continued)*

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Impairment losses in respect of available-for-sale 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 profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period 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
- 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Impairment of assets *(Continued)*

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

– Calculation of recoverable amount

The recoverable amount of an asset is the higher of its fair value less costs to sell and its 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).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss 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 profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 profit or loss 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 when the services are rendered.

(iii) Interest income

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

(iv) Government grants

Government grants are recognised in the statement of financial position 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 profit or loss 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 are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expenses.

(v) Dividends

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

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

(u) Borrowing costs

Borrowing costs are expensed in profit or loss 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) 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.

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

(iii) Termination benefits

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

(w) 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 profit or loss on initial recognition of any deferred income.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) Financial guarantees issued *(Continued)*

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(w)(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) Provisions and contingent liabilities

Provisions are recognised for 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.

(x) 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 profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case they are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Income tax *(Continued)*

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.

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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Income tax *(Continued)*

- 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.

(y) 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 end of the reporting period. Exchange gains and losses are recognised in profit or loss.

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position 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 end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. 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.

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, ant the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Related parties

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

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

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

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

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

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

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

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

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

In the current year, the Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by HKICPA.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business combinations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HKFRS 8 Amendment	Disclosure of Information about Segment Assets (early adopted)
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HK(IFRIC)–Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)–Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)–Int 17	Distribution of non-cash assets to owners
HK(IFRIC)–Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendments to HKFRS 2, HKAS 38, paragraph 80 of HKAS 39, HK (IFRIC)–INT 9 and HK (IFRIC)–INT 16

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the group for the current or prior accounting periods.

The amendments to HKAS 23 and HKFRS 2 and Interpretations HK(IFRIC) 15 and HK(IFRIC) 16 have had no material impact on the group's financial statements as the amendments and interpretations were consistent with policies already adopted by the group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the group's chief operating decision maker regards and manages the group, with the amounts reported for each reportable segment being the measures reported to the group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 12). Corresponding amounts have been provided on a basis consistent with the revised segment information.

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

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with owners in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures in note 34(f) about the fair value measurement of the group's financial instruments, categorizing these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

- The "Improvements to HKFRSs (2008)" comprise a number of amendments to a range of HKFRSs. Of these, the following amendment has resulted in changes to the Group's accounting policies:

  – The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 July 2009, all dividends receivable from subsidiaries, whether out of pre-or post-acquisition profits, will be recognised in the company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

- As a result of adoption of the amendments to HKFRS 3 (Revised), it continues to apply acquisition method to business combinations, with a number of major changes: All payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as liabilities subsequently remeasured through the income statement (rather than by adjusting goodwill). All acquisition-related costs will no longer be capitalised as part of the costs of the acquisition but will be expensed immediately.

- As a result of adoption of the amendments to HKAS 27 (Revised), the accounting treatment when control is lost-any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

- HKFRS 3 (Revised) requires prospective application and HKAS 27 (Revised) should be applied the same time. The changes to HKAS 27 (Revised) require retrospective applications with certain exceptions (accounting for loss of control of a subsidiary should be applied prospectively).

4. TURNOVER

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

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

	2010 HK$'000	2009 HK$'000
Trading of fertilizers, pesticides and other agricultural products	2,446,356	2,280,175
Manufacturing and sales of plant growth regulatory products, pesticides and fertilizers	121,032	236,586
Provision of plant protection technical services	13,693	18,900
Trading of non-agricultural resources products	780,948	642,759
	3,362,029	3,178,420

5. OTHER REVENUE AND OTHER NET INCOME

	2010 HK$'000	2009 HK$'000
Other revenue		
Agency fee income	577	128
Forfeiture of deposits received from customers in respect of sales of non-agricultural resources products	–	9,879
Government grants*	4,518	5,910
Sundry income	429	45
Interest income from bank deposits	6,971	7,683
Other interest income	10,887	8,783
Total interest income on financial assets not at fair value through profit or loss	17,858	16,466
	23,382	32,428
Other net income		
Gain on disposal of investment property	2,433	–
Gain on disposal of trading securities	120	–
Gain on disposal of a jointly-controlled entity	–	757
Net foreign exchange gain	4,829	4,159
Reversal of impairment loss of trade receivables	8,855	7,423
	16,237	12,339
	39,619	44,767

* It represented the subsidies to the Group from the local government for promoting the use of compound fertilizer.

6. PROFIT BEFORE TAXATION

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

(a) Finance costs

	2010 HK$'000	2009 HK$'000
Interest on bank loans and other borrowings wholly repayable within five years	28,538	51,069
Interest on convertible bonds	1,555	–
Total interest expense on financial liabilities not at fair value through profit or loss	30,093	51,069

(b) Staff costs

	2010 HK$'000	2009 HK$'000
Contributions to defined contribution retirement plans	1,603	1,914
Equity-settled share-based payment expenses	8,040	–
Salaries, wages and other benefits	23,943	27,551
	33,586	29,465

6. PROFIT BEFORE TAXATION *(Continued)*

(c) Other items

	Note	2010 HK$'000	2009 HK$'000
Depreciation#	*13*	**7,549**	5,478
Amortisation#			
– lease premiums for land	*15*	**258**	306
– intangible assets	*16*	**8,067**	12,414
Cost of inventories#	*21(b)*	**3,183,660**	2,966,047
Write down of inventories	*21(b)*	**5,847**	24,510
Impairment loss on			
– property, plant and equipment*	*13*	**–**	137
– intangible assets*	*16*	**–**	798
– trade receivables*	*22(a)(ii)*	**4,161**	8,855
Auditor's remuneration			
– audit services		**1,250**	1,300
– other services		**208**	50
Loss on disposal of subsidiaries	*32(b)*	**8,474**	12,226
Loss on disposal of property, plant and equipment		**324**	2,363
Operating lease charges: minimum lease payments for land and buildings#		**4,306**	4,312

\# Cost of inventories includes approximately HK$9,244,000 (2009: HK$11,125,000) relating to staff costs, depreciation, amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above.

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

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2010 HK$'000	2009 HK$'000
Current tax:		
Hong Kong profits tax	**–**	–
PRC Enterprise Income Tax for the year	**13,957**	13,816
Under provision in respect of prior years:		
PRC enterprise income tax for the year	**2,437**	–
Total	**16,394**	13,816

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

(a) Taxation in the consolidated income statement represents: *(Continued)*

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

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits arising in Hong Kong during the years ended 30 June 2010 and 2009.

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

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

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

No deferred tax liabilities have been recognised, as the Company controls the dividend policy of its subsidiaries and it has been determined that the profits earned by the Company's certain PRC subsidiaries for the year period 1 January 2008 to 30 June 2010 will not be distributed in the foreseeable future.

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

	2010 HK$'000	2009 HK$'000
Profit before taxation	**47,275**	25,733
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**11,819**	5,656
Tax effect of non-deductible expenses	**14,834**	5,630
Tax effect of non-taxable income	**(15,648)**	(6,642)
Tax effect of unused tax losses not recognised	**6,109**	10,484
Tax effect of utilisation of tax loss not previously recognised	**(720)**	(1,312)
Actual tax expense	**16,394**	13,816

8. DIRECTORS' REMUNERATION

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

Year ended 30 June 2010

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors				
Mr. Wu Shaoning	–	770	12	782
Mr. Yang Zhuoya	–	360	12	372
Independent non-executive directors				
Mr. Lam Ming Yung	60	–	–	60
Mr. Zhang Shaosheng	60	–	–	60
Mr. Wong Chi Wai (resigned on 1 March 2010)	80	–	–	80
Mr. Wong Kin Tak (appointed on 1 March 2010)	40	–	–	40
	240	1,130	24	1,394

8. DIRECTORS' REMUNERATION *(Continued)*

Year ended 30 June 2009

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

(i) For the year ended 30 June 2010 and 2009, 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 year ended 30 June 2010 and 2009.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2009: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2009: three) individuals are as follows:

	2010 HK$'000	2009 HK$'000
Salaries and other emoluments	**1,310**	918
Share-based payments	**1,642**	–
Retirement scheme contributions	**36**	34
	2,988	952

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

The emoluments of the three (2009: three) individuals with the highest emoluments are within the following bands:

	2010 Number of individuals	2009 Number of individuals
Nil – HK$1,000,000	1	3
HK$1,000,001 – HK$1,500,000	2	–

During the year, no emoluments (2009: nil) were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office.

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company includes a loss of approximately HK$13,117,000 (2009: HK$3,170,000) which has been dealt with in the financial statements of the Company.

11. EARNINGS PER SHARE

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

	2010 HK$'000	2009 HK$'000
Earnings for the purpose of basic and diluted earnings per share	29,793	11,067

Weighted average number of ordinary shares

	Number of shares 2010 '000	Number of shares 2009 '000
Weighted average number of ordinary shares used in calculating basic earnings per share	597,735	489,767
Effect of dilutive potential shares arising from – share options	7,625	194
Weighted average number of ordinary shares used in calculating diluted earnings per share	605,360	489,961

Unlisted warrants had anti-dilutive effects on the basic earnings per share for the year ended 30 June 2009 and 2010.

Convertible bonds had anti-dilutive effects on the basic earnings per share for the year ended 30 June 2010.

12. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports which provides information about components of the Group. These information are reported to and reviewed by the chief operating decision-maker ("CODM") for the purpose of resource allocation and performance assessment.

The CODM considers the business from both geographic and product perspectives. Geographically, the CODM considers the performance of the segments in PRC. The Group has presented the following four reportable segments. These segments are managed separately and offers very different products and services.

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

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

– Consultancy operation: the provision of plant protection technical services.

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

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2(z). Segment profit/(loss) represents the profit earned by/(loss) from each segment without allocation of central administration costs such as directors' salaries, investment income and finance costs. This is the measure reported to the CODM for purposes of resource allocation and performance assessment.

Taxation charged/(credit) is not allocated to reportable segment.

Segment assets include all tangible, intangible assets and current assets with the exception of interests in associates, investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade creditors, accruals, bills payable and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

12. SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

(i) For the year ended 30 June 2010

	Trading operation HK$'000	Manufacturing operation HK$'000	Consultancy operation HK$'000	Non-agricultural resources trading operation HK$'000	Total HK$'000
Revenue from external customers	2,446,356	121,032	13,693	780,948	3,362,029
Inter-segment revenue	18,756	15,555	–	43,179	77,490
Reportable segment revenue	2,465,112	136,587	13,693	824,127	3,439,519
Reportable segment profit before taxation	8,616	8,990	11,903	33,946	63,455
Interest income	17,590	8	6	254	17,858
Finance cost	23,982	–	–	4,556	28,538
Depreciation and amortisation	3,656	11,880	2	336	15,874
Write down of inventories	5,847	–	–	–	5,847
Impairment loss on – trade receivables	314	636	–	3,211	4,161
Reportable segment assets	2,037,448	290,931	12,365	452,992	2,793,736
Additions to non-current assets	3,384	40,139	–	404	43,927
Reportable segment liabilities	1,510,161	105,712	83	274,406	1,890,362

12. SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

(ii) For the year ended 30 June 2009

	Trading operation HK$'000	Manufacturing operation HK$'000	Consultancy operation HK$'000	Non-agricultural resources trading operation HK$'000	Total HK$'000
Revenue from external customers	2,280,175	236,586	18,900	642,759	3,178,420
Inter-segment revenue	26,030	20,721	335	90,813	137,899
Reportable segment revenue	2,306,205	257,307	19,235	733,572	3,316,319
Reportable segment profit/(loss) before taxation	(2,391)	21,668	9,820	3,840	32,937
Interest income	16,137	31	30	268	16,466
Finance cost	43,559	37	–	7,473	51,069
Depreciation and amortisation	2,037	13,766	2,111	284	18,198
Write down of inventories	20,074	42	–	4,394	24,510
Impairment loss on					
– intangible assets	–	798	–	–	798
– property, plant and equipment	–	–	137	–	137
– trade receivables	2,843	538	–	5,474	8,855
Reportable segment assets	1,963,812	253,335	1,643	275,747	2,494,537
Additions to non-current assets	2,119	44,947	3	32	47,101
Reportable segment liabilities	1,537,699	51,991	254	219,868	1,809,812

12. SEGMENT REPORTING *(Continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2010 HK$'000	2009 HK$'000
(i) Revenue		
Total reportable segments' revenue	**3,439,519**	3,316,319
Elimination of inter-segment revenue	**(77,490)**	(137,899)
Consolidated turnover	**3,362,029**	3,178,420
(ii) Profit		
Reportable segment profit	**63,455**	32,937
Gain on disposal of investment property	**2,433**	–
Valuation gains on investment properties	**–**	595
Unallocated finance costs	**(1,555)**	–
Unallocated interest income	**–**	–
Unallocated corporate expenses	**(17,058)**	(7,799)
Consolidated profit before taxation	**47,275**	25,733
(iii) Assets		
Reportable segment assets	**2,793,736**	2,494,537
Unallocated corporate assets	**30,540**	37,671
Consolidated total assets	**2,824,276**	2,532,208
(iv) Liabilities		
Reportable segment liabilities	**1,890,362**	1,809,812
Unallocated corporate liabilities	**48,466**	14,953
Consolidated total liabilities	**1,938,828**	1,824,765

12. SEGMENT REPORTING *(Continued)*

(c) Revenue from major product and services

The following is an analysis of the Group's revenue from external customers for its major products and services:

	2010 HK$'000	2009 HK$'000
Sales of agricultural resources		
Nitrogenous fertilizer	**320,887**	416,646
Phosphorous fertilizer	**452,167**	422,243
Potash fertilizer	**507,764**	466,553
Compound fertilizer	**825,698**	827,317
Pesticides	**474,565**	402,902
Agricultural resources products	**2,581,081**	2,535,661
Trading of non-agricultural resources products	**780,948**	642,759
Total	**3,362,029**	3,178,420

(d) Geographic Information

The following is an analysis of geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets. The geographical location of customers refers to the location at which the services were provided or the goods delivered. The Group's non-current assets include property, plant and equipment, investment property and intangible assets. The geographical location of property, plant and equipment are based on the physical location of the asset. In the case of intangible assets and investment properties, it is based on the location of operation to which these intangibles are allocated.

	Revenues from external customers		Non-current assets	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Hong Kong (Place of domicile)	**–**	–	**–**	–
Mainland China	**3,362,029**	3,178,420	**241,949**	230,569
	3,362,029	3,178,420	**241,949**	230,569

13. PROPERTY, PLANT AND EQUIPMENT

	The Group					
	Buildings HK$'000	Machinery HK$'000	Construction-in-progress HK$'000	Furniture and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost:						
At 1 July 2008	27,592	84,481	14,666	6,463	8,632	141,834
Exchange alignment	(56)	(182)	(65)	(12)	(19)	(334)
Additions	4,517	984	39,589	443	1,568	47,101
Disposals	–	(261)	(1,789)	(206)	(746)	(3,002)
Disposals of subsidiaries	–	–	–	(635)	(833)	(1,468)
Disposal of a jointly-controlled entity	–	–	–	(488)	–	(488)
Transfer to investment properties	(14,872)	–	–	–	–	(14,872)
Reclassification of construction-in-progress	52,401	–	(52,401)	–	–	–
At 30 June 2009 and 1 July 2009	69,582	85,022	–	5,565	8,602	168,771
Exchange alignment	365	(84)	25	17	47	370
Transfer	(1,934)	5,556	(3,595)	(27)	–	–
Additions	2,339	874	6,266	163	2,240	11,882
Acquisition of a subsidiary	22,066	8,958	231	583	207	32,045
Disposals	(37)	(48,927)	–	(661)	(461)	(50,086)
Disposal of a subsidiary	(5,759)	(9,121)	–	(123)	–	(15,003)
At 30 June 2010	**86,622**	**42,278**	**2,927**	**5,517**	**10,635**	**147,979**
Accumulated depreciation and impairment:						
At 1 July 2008	7,695	73,217	–	3,647	3,836	88,395
Exchange alignment	(17)	(158)	–	(6)	(9)	(190)
Charge for the year	1,295	1,972	–	798	1,413	5,478
Write back on disposals	–	(257)	–	(92)	(290)	(639)
Disposals of subsidiaries	–	–	–	(552)	(318)	(870)
Impairment loss	137	–	–	–	–	137
Disposal of a jointly-controlled entity	–	–	–	(342)	–	(342)
Transfer to investment properties	(5,874)	–	–	–	–	(5,874)
At 30 June 2009 and 1 July 2009	3,236	74,774	–	3,453	4,632	86,095
Exchange alignment	25	(184)	–	12	28	(119)
Transfer	–	17	–	(17)	–	–
Charge for the year	3,518	1,589	–	785	1,657	7,549
Write back on disposals	(6)	(48,880)	–	(545)	(331)	(49,762)
Disposal of a subsidiary	(1,836)	(3,018)	–	(80)	–	(4,934)
At 30 June 2010	**4,937**	**24,298**	**–**	**3,608**	**5,986**	**38,829**
Carrying amount:						
At 30 June 2010	**81,685**	**17,980**	**2,927**	**1,909**	**4,649**	**109,150**
At 30 June 2009	66,346	10,248	–	2,112	3,970	82,676

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

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

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

(c) During the year ended 30 June 2009, certain buildings with a carrying amount of approximately HK$8,998,000 were reclassified as investment properties as a result of the change in use of the said buildings from held for own use to held for rental purpose.

(d) During the year, certain of the Group's plant and machinery with a carrying amount of approximately HK2,692,000 were pledged to secure the Group's bills payable.

14. INVESTMENT PROPERTIES

	The Group	
	2010	2009
	HK$'000	HK$'000
At valuation		
At 1 July	**20,557**	25,726
Exchange alignment	**–**	(62)
Transfer from property, plant and equipment and prepaid lease payments	**–**	15,279
Disposal	**(20,557)**	–
Disposal of a jointly-controlled entity	**–**	(20,981)
Valuation gains	**–**	595
At 30 June	**–**	20,557

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

(b) During the year ended 30 June 2009, certain buildings together with the related lease premiums for land were reclassified as investment properties as the result of the change in use of the said land and buildings from held for own use to held for investment purpose.

(c) All investment properties had not been leased out during the years ended 30 June 2010 and 2009.

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

(e) At 30 June 2009, all investment properties were pledged as securities for bank loans of the Group as detailed in note 27.

(f) On 10 March 2010, all the investment properties were disposed of to an independent third party for a total consideration of RMB20,303,000 (equivalent to HK$22,990,000).

15. LEASE PREMIUMS FOR LAND

	The Group	
	2010	2009
	HK$'000	HK$'000
Carrying amount at beginning of the year	**8,778**	10,580
Additions	**–**	4,810
Exchange alignment	**(14)**	(25)
Transfer to investment properties (Note 14)	**–**	(6,281)
Amortisation	**(258)**	(306)
Disposal of subsidiaries	**(5,157)**	–
Carrying amount at end of the year	**3,349**	8,778
Analysed for reporting purposes as:		
Current portion	**96**	240
Non-current portion	**3,253**	8,538
	3,349	8,778

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

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

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 2008	52,292	51,321	105,717	209,330
Exchange alignment	–	(111)	(227)	(338)
At 30 June 2009 and 1 July 2009	52,292	51,210	105,490	208,992
Exchange alignment	–	170	198	368
Eliminated on disposal of Subsidiaries	–	–	(17,603)	(17,603)
At 30 June 2010	**52,292**	**51,380**	**88,085**	**191,757**
Accumulated amortisation and impairment:				
At 1 July 2008	52,292	22,463	88,357	163,112
Exchange alignment	–	(52)	(197)	(249)
Charge for the year	–	4,399	8,015	12,414
Impairment loss	–	–	798	798
At 30 June 2009 and 1 July 2009	52,292	26,810	96,973	176,075
Exchange alignment	–	122	234	356
Charge for the year	–	4,000	4,067	8,067
Write back on disposals	–	–	(14,145)	(14,145)
At 30 June 2010	**52,292**	**30,932**	**87,129**	**170,353**
Carrying amount:				
At 30 June 2010	**–**	**20,448**	**956**	**21,404**
At 30 June 2009	–	24,400	8,517	32,917

(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 formula acquired for manufacturing pesticides and fertilizers. They all have finite useful lives.

16. INTANGIBLE ASSETS *(Continued)*

(b) At 30 June 2010, the Company performed impairment test for product development costs and technical know-how. The test used the cash flow projections based on financial estimates covering a five-year period, expected sales to be derived the intangible assets and discount rate is 12.1% (2009: 10.90% to 12.20%). The cash flows beyond the five-year period are extrapolated using a steady growth rate from 5% to 25% (2009: 0% to 20%). The valuations were carried out by an independent qualified professional valuation firm not connected with the Group.

The recoverable amount of the assets are determined based on value-in-use calculations.

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

The recoverable amount of technical know-how exceed its carrying amount and accordingly no impairment loss is recognised for the year (2009: HK$798,000).

(c) Amortisation charges for the year of approximately HK$1,133,000 (2009: HK$3,797,000) and HK$6,934,000 (2009: HK$8,617,000) was included in the cost of sales and administrative expenses respectively in the consolidated income statement.

17. GOODWILL

	Group HK$'000
Cost:	
At 1 July 2008	123,995
Exchange alignment	(312)
Eliminated on disposals of subsidiaries	(13,986)
At 30 June 2009 and 1 July 2009	109,697
Exchange alignment	477
Eliminated on disposal of subsidiaries	(4,882)
At 30 June 2010	105,292
Accumulated amortisation and impairment:	
At 1 July 2008	23,912
Exchange alignment	(96)
Charge for the year	–
Impairment loss	–
At 30 June 2009 and 1 July 2009	23,816
Exchange alignment	135
Charge for the year	–
Write back on disposals	–
At 30 June 2010	23,951
Carrying amount:	
At 30 June 2010	81,341
At 30 June 2009	85,881

17. GOODWILL *(Continued)*

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

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

	Note	2010 HK$'000	2009 HK$'000
Agricultural resources trading operation	*(i)*	**81,341**	85,881
Non-agricultural resources trading operation	*(ii)*	**–**	–
		81,341	85,881

(i) Agricultural resources trading operation

The Group performed its annual impairment test for goodwill allocated to the agricultural resources trading operation CGU by comparing its recoverable amount to its carrying amount as at the end of the reporting period. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations used cash flow projection based on a five-year financial budget approved by management and extrapolated perpetually with an estimated general annual growth of not more than 5%. The discount rate used of 14.2% reflected specific risk related to the relevant segment. The budgeted gross margin of 5% is determined by the management based on past performance and its expectations for market development. The management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of the goodwill to exceed the recoverable amount. Accordingly, no impairment loss is recognised for the year.

(ii) Non-agricultural resources trading operation

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

18. AVAILABLE FOR SALE FINANCIAL ASSETS

		The Group	
	Note	**2010**	2009
		HK$'000	HK$'000
Unlisted equity investments, at cost		**25,378**	–
Investment in former subsidiaries	*32(b)*	**1,423**	–
		26,801	–

The unlisted equity investments are equity securities issued by private entities established in the mainland China and their fair value cannot be measured reliably. Hence, they are measured at cost less impairment at the end of each reporting period. The Group does not intend to dispose of them in the near future.

19. OTHER DEPOSIT

The amounts represent two refundable deposits paid by the Group, under two letters of intent for the intended acquisitions of the entire existing shares of two target companies. These two target companies are in the process of acquiring 80% and 85% interests respectively in two mine holding companies which in turn own phosphorous mines in various locations in Hubei Province in the PRC. The two mine holding companies currently do not have exploitation licenses. Pursuant to the letters of intent dated 27 November 2007 (Letter of Intent A) and 29 November 2007 (Letter of Intent B), the Group paid RMB12,000,000 (equivalent to HK$ 13,612,000) and RMB12,000,000 (equivalent to HK$13,612,000) respectively as refundable deposits to the vendors. The completion of the acquisitions of these two target companies are primarily subject to the procurement of the mine exploitation licenses by the mine holding companies and the acquisition considerations will be based on the verified reserve of the phosphorous mines. The deposit shall be refunded to the Group within 10 days after the expiration of the exclusive periods which is 18 months and 240 days after the signing of the Letter of Intent A and Letter of Intent B, respectively, if the acquisitions are not completed. The mining companies and several other persons guarantee the performance of obligations of the respective vendors regard to the refundable deposits.

On 15 May 2009 and 15 July 2008, the Group entered into a supplemental agreement with the vendors to extend Letter of Intent A and the Letter of Intent B which exclusive period expired on 27 May 2009 and 25 July 2008 for a period of 18 months to 27 November 2010 and 180 days to 21 January 2009 respectively. During the year ended 30 June 2009, the management has decided to terminate the Letter of Intent B and the relevant deposit amounting to RMB12,000,000 (equivalent to HK$13,612,000) has been refunded to the Group on 10 September 2009. Due to the technical complexity of the procedures to procure the mine exploitation licenses and other due diligence works to be performed, the directors do not expect that the acquisition of the phosphorous mines can be completed within one year. Accordingly, the amount of deposit is classified as a non-current asset.

20. INTERESTS IN SUBSIDIARIES

	The Company	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	**11,735**	11,735
Amounts due from subsidiaries	**290,424**	128,819
	302,159	140,554

Amounts due from subsidiaries are unsecured, interest-free and are not expected to be recovered within one year. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries. The carrying amounts of these amounts due from subsidiaries approximate to their fair value.

20. INTERESTS IN SUBSIDIARIES *(Continued)*

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

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital/ registered capital	Group's effective interest	Proportion of ownership interest Held by Company	Held by subsidiaries	Principal activities
福建浩倫農業科技集團有限公司 *	PRC	RMB100,043,773	100%	–	100%	Investment holding and provision of agricultural technical support services
福州浩倫作物科學有限公司 *	PRC	HK$40,000,000	100%	–	100%	Provision of agricultural technical support services
福建浩倫生物工程技術有限公司 *	PRC	US$5,000,000	100%	–	100%	Manufacturing and selling of plant growth regulatory products and fertilizers
Topmart Limited	Hong Kong	HK$2	100%	–	100%	Investment holding and general trading and export
江西浩倫農業科技有限公司#	PRC	RMB5,000,000	100%	–	100%	Trading of pesticides, fertilizers and other agricultural products
湖南浩倫農業科技有限公司#	PRC	RMB50,000,000	100%	–	100%	Trading of pesticides, fertilisers and other agricultural products
江蘇浩倫農業科技有限公司#	PRC	RMB50,000,000	100%	–	100%	Trading of pesticides, fertilisers and other agricultural products
海南浩倫農業科技有限公司#	PRC	RMB2,000,000	100%	–	100%	Trading of pesticides, fertilisers and other agricultural products
大豐市浩倫農資超市有限責任公司#	PRC	RMB5,000,000	70%	–	70%	Trading of pesticides, fertilisers and other agricultural products
福建省三明市浩倫園藝植保有限公司#	PRC	RMB10,000,000	70%	–	70%	Trading of pesticides, fertilisers and other agricultural products
福州浩倫東方貿易有限公司#	PRC	RMB50,000,000	100%	–	100%	General trading and export
山東浩倫農業科技有限公司#	PRC	RMB25,000,000	98%	–	98%	Trading of pesticides, fertilizers and other agricultural products
山東浩倫興魯農資連鎖有限公司#	PRC	RMB15,000,000	58.8%	–	58.8%	Trading of pesticides, fertilizers and other agricultural products
濟南浩倫安耐特化工有限公司#	PRC	RMB1,800,000	70%	–	70%	Trading of pesticides, fertilizers and other agricultural products
秦皇島市東山沅電力燃料有限公司#	PRC	RMB5,000,000	60%	–	60%	Trading of coal
丹東天潤農業科技有限公司#	PRC	RMB 400,000	80%	–	80%	Trading of agricultural products

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

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

21. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	The Group	
	2010	2009
	HK$'000	HK$'000
Raw materials	**11,835**	12,450
Work-in-progress	**1,579**	1,980
Finished goods	**9,904**	16,603
Merchandise	**70,813**	116,849
	94,131	147,882

At 30 June 2010, no inventory was pledged as securities for facilities of the Group. (2009: HK$18,135,000)

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Amount of inventories sold	**3,183,660**	2,966,047
Write down of inventories	**5,847**	24,510
	3,189,507	2,990,557

During the year, there was significant decrease on net realisable value of fertilizers due to the decrease of market price. As a result, a write-down of inventories of HK$5,847,000 (2009: HK$24,510,000) has been recognised in the consolidated income statement.

22. TRADE AND OTHER RECEIVABLES

	Note	The Group 2010 HK$'000	The Group 2009 HK$'000	The Company 2010 HK$'000	The Company 2009 HK$'000
Trade debtors and bills receivables	*(a)*	**617,886**	**682,595**	–	–
Less: allowance for doubtful debts		**(4,161)**	**(8,855)**	–	–
		613,725	**673,740**	–	–
Due from non-controlling shareholders	*(b)*	**1,163**	**1,187**	–	–
Loans and receivables		**614,888**	**674,927**	–	–
Deposits and prepayments		**86,172**	**163,952**	92	74
Advances to suppliers	*(c)*	**1,335,976**	**866,098**	–	–
		2,037,036	**1,704,977**	92	74

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

(a) Trade debtors and bills receivables

(i) Ageing analysis

Trade debtors and bills receivables are with the following ageing analysis presented based on invoice date as of the end of the reporting period:

	The Group 2010 HK$'000	The Group 2009 HK$'000
0-90 days	**502,827**	613,965
91-180 days	**82,828**	34,042
181-365 days	**29,754**	22,789
Over 365 days	**2,477**	11,799
	617,886	682,595

Debts are generally due within six months from the date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and creditworthiness, extend the credit period upon customers' requests. Further details on the Group's credit policy are set out in note 34(a).

22. TRADE AND OTHER RECEIVABLES *(Continued)*

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

(ii) Impairment of trade debtors and bills receivables

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

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

	The Group	
	2010	2009
	HK$'000	HK$'000
At 1 July	**8,855**	7,449
Impairment loss recognised	**4,161**	8,855
Disposals of subsidiaries	**–**	(26)
Reversal of impairment loss	**(8,855)**	(7,423)
At 30 June	**4,161**	8,855

At 30 June 2010, the Group's trade debtors and bills receivable of approximately HK$4,161,000 (2009: HK$8,855,000) were individually determined to be impaired. The individually impaired receivables related to long overdue debts. The Group does not hold any collateral over these balances. Allowance for certain doubtful debts of HK$8,855,000 (2009: HK$7,423,000) made in previous years were reversed because the debts were subsequently recovered.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**594,913**	607,541
Past due but not impaired		
Past due within 3 months	**18,812**	34,048
Past due more than 3 months	**–**	32,151
	18,812	66,199
	613,725	673,740

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

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

(iv) At 30 June 2010, trade debtors amounting to HK$34,141,000 (2009: HK$6,401,000) were pledged as securities for bank loans of the Group as detailed in note 27(a).

(b) Due from non-controlling shareholders

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

(c) Advances to suppliers

Amount represents prepayments or deposits paid to suppliers for purchases of inventories.

23. TRADING SECURITIES

	The Group	
	2010	2009
	HK$'000	HK$'000
Trading securities (at fair value)		
Unlisted securities, outside Hong Kong	**1,292**	2,989

24. RESTRICTED BANK DEPOSITS

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

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of financial position include a sum of HK$90,329,000 (2009: HK$106,402,000) that are denominated in Renminbi. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange controls imposed by the PRC government. Cash at bank earns interest at floating rates based on daily bank deposit rates.

26. TRADE AND OTHER PAYABLES

		The Group		The Company	
	Note	**2010**	**2009**	2010	2009
		HK$'000	**HK$'000**	HK$'000	HK$'000
Trade creditors and bills payable	*(a)*	**1,139,290**	**1,312,361**	–	–
Accrued charges		**2,352**	**7,343**	1,411	1,623
Dividend payable		**2**	**2**	–	2
Receipts in advance from customers		**128,075**	**96,086**	–	–
Due to non-controlling shareholders	*(b)*	**3,454**	**3,502**	–	–
Due to a director	*36(e)*	**2,190**	**12,270**	–	–
Other payables		**40,684**	**51,165**	–	–
Financial liabilities measured amortised cost		**1,316,047**	**1,482,729**	1,411	1,625

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

26. TRADE AND OTHER PAYABLES *(Continued)*

(a) Trade creditors and bills payable

The ageing analysis of trade creditors and bills payable as of the end of the reporting period is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Due within 1 month or on demand	**324,959**	550,445
Due after 1 month but within 2 months	**196,804**	482,832
Due after 2 months but within 3 months	**105,939**	37,134
Due after 3 months but within 6 months	**496,819**	218,374
Due after 6 months	**14,769**	23,576
	1,139,290	1,312,361

At 30 June 2010, the bills payable of approximately HK$928 millions (2009: HK$1,019 millions) were secured by the restricted bank deposits of the Group amounting to approximately HK$341 millions (2009: HK$306 millions) (note 24) and guarantees provided by independent third parties and a director of the Company (the "Guarantees") amounting to approximately HK$1,581 millions (2009: HK$638 millions) and approximately HK$706 millions (2009: HK$647 millions) respectively. The Guarantees were concurrently used to support those unsecured bank loans mentioned in note 27(b).

In addition, plant and machinery of Group with carrying amount of approximately HK$3 millions (2009: Nil) were pledged to banks as securities.

(b) Due to non-controlling shareholders

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

27. BANK LOANS

At 30 June 2010, details of the bank loans carried at amortised cost and repayable within 1 year were as follows:

		The Group	
	Note	**2010** **HK$'000**	2009 HK$'000
Secured	*(a)*	**43,234**	53,880
Unsecured	*(b)*	**501,693**	250,553
		544,927	304,433
Carrying amount repayable			
On demand or within one year		**539,009**	304,433
More than one year but not exceeding two years		**5,918**	–
More than two years but not more than five years		**–**	–
		544,927	304,433
Less: Amounts due within one year shown under current liabilities		**(539,009)**	(304,433)
Non-current liabilities		**5,918**	–

(a) At 30 June 2010, the above secured bank loans of the Group amounting to HK$34,130,000 (2009: HK$44,806,000) were secured by the following:

	2010 **HK$'000**	2009 HK$'000
Investment properties	**–**	20,557
Trade debtors	**34,141**	6,401
Inventories	**–**	18,135
	34,141	45,093

At 30 June 2010, 大豐市新農農業生產資料有限公司, a minority shareholder of a subsidiary of the Group pledged its properties to banks as securities for facilities to a total extent of approximately HK$9,104,000 (2009: HK$9,074,000) granted to that subsidiary.

(b) The unsecured bank loans are supported by the Guarantees as mentioned in note 26(a) and additional guarantees provided by a director of the Company and independent third parties amounting to approximately HK$104,700,200 (2009: HK$22,238,000) and HK$71,469,000 (2009: HK$887,975,000) respectively.

(c) At 30 June 2010, the effective interest rates of the bank loans ranged from 1.09% to 7.53% (2009: 3.1% to 8.96%) per annum.

28. 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, 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 and is recognised as staff costs and related expenses (note 6(b)) with a corresponding increase in the share option reserve.

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

(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	Immediate	1 January 2004 to 30 December 2011	HK$0.55	800,000
27 July 2009	Immediate	27 July 2009 to 30 December 2011	HK$0.72	48,970,000

(b) Movement in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2010		2009	
	Weighted average exercise price	**Number of share options**	Weighted average exercise price	Number of share options
	HK$	**'000**	HK$	'000
Outstanding at beginning of the year	**0.55**	**800**	0.55	800
Granted during the year	**0.72**	**48,970**	–	–
Exercised during the year	**0.66**	**(1,100)**	–	–
Outstanding at the end of the year	**0.72**	**48,670**	0.55	800
Exercisable at the end of the year	**0.72**	**48,670**	0.55	800

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.80.

28. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

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

The options outstanding have an exercise price of HK$0.72 (2009: HK$0.55) and a weighted average remaining contractual life of 1.5 years (2009: 2.5 years).

For the options granted on 27 July 2009, the fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. The estimate of the fair value of the share option granted is measured based on the Black-Scholes model. The contractual life of the share option and the expectations of early exercise are incorporated into the model. The expected volatility is based on the historic volatility. No dividends are expected as the company had no history of payment of dividends. Changes in subjective input assumptions could materially affect the fair value estimate.

Fair values of share options and assumptions

	Date of Grant 27 July 2009
Fair value at measurement date	HK$0.164
Share price	HK$0.72
Exercise price	HK$0.72
Options life (expressed as weighted average life used in the modelling under Black-Scholes model)	0.58 years
Expected volatility (expressed as weighted average life used in the modelling under Black-Scholes model)	82.545%
Expected dividends	0%
Risk-free interest rate (based on 182-day exchange fund bills)	0.07%

For the options granted on 1 December 2003, no amount was recognised when employees (which term includes the directors of the Company) were granted share options over shares in the Company in accordance with the accounting policy set out in note 2(v)(ii) as 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 are immediately vested before 1 January 2005. The option's exercise price receivable will be credited to share capital and share premium.

29. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation

Provision for taxation of approximately HK$47,995,000 (2009: HK$37,603,000) in the consolidated statement of financial position represents provision for the PRC enterprise income tax.

(b) Deferred taxation not recognised

In accordance with the accounting policy set out in note 2(x), the Group has not recognised deferred tax assets in respect of tax losses of approximately HK$21,910,000 (2009: HK$13,812,000). Deferred tax assets have not been recognised in respect of these losses due to the unpredictability of future profit streams. Under current tax legislation, tax losses of approximately HK$14,280,000 (2009: HK$9,972,000) do not have expiry date and tax losses of approximately HK$7,630,000 (2009: HK$3,840,000) will expire in five years from the year in which they were incurred.

The Group had no other significant deferred taxation not provided for during the year and as at the end of the reporting period.

30. CONVERTIBLE BONDS

The Group and the Company

On 24 July 2009, the Company issued convertible bonds denominated in Hong Kong dollars with an aggregate maximum principal amount of HK$29,970,000 at 3% interest per annum payable annually. Subject to certain adjustments, the convertible bonds will be convertible into the ordinary shares of the Company at an initial conversion price of HK$0.9 per share within two years commencing from the date of issue of convertible bonds (i.e. 24 July 2009). Conversion may occur at any time between 24 July 2009 and 23 July 2011. The Company will redeem the convertible bond on the maturity date (i.e. 23 July 2011) at 100% of its outstanding principal amount together with the accrued interest.

The convertible bonds or any part(s) thereof may be assigned or transferred to any party who is not a connected person (as defined in the Listing Rules) of the Company. Any assignment or transfer of the convertible bonds shall be in respect of the whole or any part(s) of the outstanding principal amount of the convertible bonds, provided that the principal amount of the convertible bonds to be assigned or transferred shall not be less than HK$3,000,000 on each transfer or assignment.

The convertible bonds contained two components, the liability and equity components. The equity component is presented in equity as an "Convertible bonds equity reserve". As at 24 July 2009, the entire convertible bonds were measured at fair value. The valuation was performed by Ample Appraisal Limited, an independent professional valuer, who has a recognised and relevant professional qualification. Valuation was made on the basis of effective interest method. The effective interest rate of the liability component is approximately 5.87%. The current portion represents the interest payable on 23 July 2010.

The movement of the liability component of the convertible bond for the year was set out below:

	2010 **HK$'000**	2009 HK$'000
At beginning of the year	**–**	–
Issued during the year	**28,392**	–
Interest charged	**1,555**	–
Interest paid upon conversion	**(2)**	–
Conversion	**(86)**	–
At end of the year	**29,859**	–
Analysed for reporting purpose		
Current portion	**896**	–
Non current portion	**28,963**	–
At end of the year	**29,859**	–

31. CAPITAL AND RESERVES

(a) The Group

		Attributable to owners of the Company												
		Share capital	Share premium	Capital reserve	Property revaluation reserve	Exchange reserve	Convertible bonds equity reserve	Employee share-based compensation reserve	Other reserves	Warrant reserve	Retained profits	Total	Non-controlling interests	Total equity
	Note	HK$'000	HK$'000	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 2008		48,977	114,391	1,188	7,833	85,141	–	–	53,564	2,446	365,410	678,950	17,647	696,597
Profit for the year		–	–	–	–	–	–	–	–	–	11,067	11,067	850	11,917
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong		–	–	–	–	(1,514)	–	–	–	–	–	(1,514)	(198)	(1,712)
Disposal of a jointly-controlled entity	*32(d)*	–	–	–	(7,833)	(1,319)	–	–	–	–	7,833	(1,319)	–	(1,319)
Total other comprehensive income		–	–	–	(7,833)	(2,833)	–	–	–	–	7,833	(2,833)	(198)	(3,031)
Total comprehensive income for the year		–	–	–	(7,833)	(2,833)	–	–	–	–	18,900	8,234	652	8,886
Transactions with owners														
Transfers		–	–	–	–	–	–	–	240	–	(240)	–	–	–
Capital injected by non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	2,383	2,383
Disposal of subsidiaries	*32(c)*	–	–	–	–	–	–	–	–	–	–	–	(423)	(423)
Total transactions with owners		–	–	–	–	–	–		240	–	(240)	–	1,960	1,960
At 30 June 2009		48,977	114,391	1,188	–	82,308	–	–	53,804	2,446	384,070	687,184	20,259	707,443

31. CAPITAL AND RESERVES *(Continued)*

(a) The Group *(Continued)*

	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Convertible bonds equity reserve HK$'000	Employee share-based compensation reserve HK$'000	Other reserves HK$'000	Warrant reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Attributable to owners of the Company											
At 1 July 2009		48,977	114,391	1,188	82,308	–	–	53,804	2,446	384,070	687,184	20,259	707,443
Profit for the year		–	–	–	–	–	–	–	–	29,793	29,793	1,088	30,881
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong		–	–	–	2,608	–	–	62	–	–	2,608	–	2,670
Disposal of subsidiaries	32(b)	–	–	–	(157)	–	–	–	–	–	(157)	–	(157)
Total other comprehensive income		–	–	–	2,451	–	–	62	–	–	2,513	–	2,513
Total comprehensive income for the year		–	–	–	2,451	–	–	62	–	29,793	32,306	1,088	33,394
Transactions with owners													
Placement of new shares	31(c)	9,290	66,690	–	–	–	–	–	–	–	75,980	–	75,980
Issue of share options		–	–	–	–	–	8,040	–	–	–	8,040	–	8,040
Issue of convertible bonds		–	–	–	–	1,378	–	–	–	–	1,378	–	1,378
Transfers		–	–	–	–	–	–	6,355	–	(6,355)	–	–	–
Lapse of warrant		–	–	–	–	–	–	–	(731)	731	–	–	–
Issue of shares upon exercise of unlisted warrants	31(c)	5,890	54,725	–	–	–	–	–	(1,715)	–	58,900	–	58,900
Disposal of subsidiaries	32(b)	–	–	–	–	–	–	–	–	–	–	(724)	(724)
Issue of shares upon exercise of share option	31(c)	110	729	–	–	–	(115)	–	–	–	724	–	724
Capital injection by non-controlling interest		–	–	–	–	–	–	–	–	–	–	228	228
Issue of shares upon conversion of convertible bonds	31(c)	10	79	–	–	(4)	–	–	–	–	85	–	85
Total transactions with owners		15,300	122,223	–	–	1,374	7,925	6,355	(2,446)	(5,624)	145,107	(496)	144,611
At 30 June 2010		**64,277**	**236,614**	**1,188**	**84,759**	**1,374**	**7,925**	**60,221**	**–**	**408,239**	**864,597**	**20,851**	**885,448**

31. CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Note	Share capital HK$'000	Share premium HK$'000	Contri-buted surplus HK$'000	Convertible bonds equity reserve HK$'000	Employee share-based compen-sation reserve HK$'000	Warrant reserve HK$'000	Acc-umulated losses HK$'000	Total HK$'000
At 1 July 2008		48,977	114,391	11,527	–	–	2,446	(35,168)	142,173
Loss for the year		–	–	–	–	–	–	(3,170)	(3,170)
At 30 June 2009 and 1 July 2009		48,977	114,391	11,527	–	–	2,446	(38,338)	139,003
Placement of new shares	31(c)	9,290	66,690	–	–	–	–	–	75,980
Issue of shares upon exercise of bonus warrants	31(c)	5,890	54,725	–	–	–	(1,715)	–	58,900
Issue of share options		–	–	–	–	8,040	–	–	8,040
Issue of convertible bonds		–	–	–	1,378	–	–	–	1,378
Lapse of warrants		–	–	–	–	–	(731)	731	–
Issue of shares upon exercise of share option	31(c)	110	729	–	–	(115)	–	–	724
Issue of shares upon conversion of convertible bonds	31(c)	10	79	–	(4)	–	–	–	85
Loss for the year		–	–	–	–	–	–	(13,117)	(13,117)
At 30 June 2010		**64,277**	**236,614**	**11,527**	**1,374**	**7,925**	**–**	**(50,724)**	**270,993**

31. CAPITAL AND RESERVES *(Continued)*

(c) Share capital

	Note	2010 Number of shares '000	2010 Amount HK$'000	2009 Number of shares '000	2009 Amount HK$'000
Authorised:					
Ordinary shares of HK$0.10 each		**3,000,000**	**300,000**	3,000,000	300,000
Ordinary shares, issued and fully paid:					
At 1 July and 30 June		**489,767**	**48,977**	489,767	48,977
Placing of new shares	*(i)*	**92,900**	**9,290**	–	–
Issue of shares upon exercise of unlisted warrants	*(ii)*	**58,900**	**5,890**	–	–
Issue of shares upon conversion of convertible bonds	*(iii)*	**100**	**10**	–	–
Issue of shares upon exercise of share options	*(iv)*	**1,100**	**110**	–	–
		642,767	**64,277**	489,767	48,977

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

Note:

(i) On 10 August 2009, the Company completed the placing of 42,900,000 shares at HK$0.7 per placing share to independent third parties pursuant to a placing agreement signed with Excalibur Securities Limited, a placing agent, on 4 June 2009. The net proceeds raised from the placing approximated to HK$29 million.

On 28 January 2010, the Company completed the placing of 50,000,000 shares at HK$0.95 per placing share to independent third parties pursuant to a placing agreement signed with Kingston Securities Limited, a placing agent, on 19 January 2010. The net proceeds raised from the placing approximated to HK$46 million.

(ii) The Company issued 84,000,000 unlisted warrants to independent third parties in the year ended 30 June 2008 ("Unlisted Warrants"). The unexercised unlisted Warrants expired on 6 September 2010. During the year ended 30 June 2010, certain warrant-holders exercised the Unlisted Warrants to subscribe for 58,900,000 ordinary shares in the Company, at an exercise price of HK$1 each. The last day of subscription was 4 September 2009.

(iii) On 19 April 2010, 100,000 new ordinary shares at a conversion price of HK$0.9 each were issued upon the conversion of HK$90,000 convertible bonds.

(iv) On 5 January 2010, 400,000 and 700,000 new ordinary shares at an exercise price of HK$0.55 and HK$0.72 each respectively were issued upon the exercise of 1,100,000 share options.

31. CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves

(i) Share premium and contributed surplus

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

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

(ii) Capital reserve

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

(iii) Property revaluation reserve

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

(iv) Exchange reserve

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

(v) Convertible bonds equity reserve

Convertible bond equity reserve represents the net proceeds received from the issue of convertible bonds of the Company. The reserve will be transferred to share capital and share premium accounts upon the conversion of convertible bonds.

(vi) Employee share-based compensation reserve

Employee share-based compensation reserve represents the fair value of share option granted to employees which is recognised as an employee cost with a corresponding increase in this reserve within equity.

31. CAPITAL AND RESERVES *(Continued)*

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

(vii) Warrant reserve

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

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

Movements in warrants:

Date of issue	At 1 July 2009	Exercised during the year	Lapsed during the year	At 30 June 2010
7 September 2007	84,000,000	58,900,000	25,100,000	–

Terms of unexpired and unexercised warrants at the end of the reporting period:

		Number of warrants	
Date of issue	Exercisable period	2010	2009
7 September 2007	7 September 2007 – 6 September 2009	–	84,000,000

(viii) Other reserves

In accordance with the 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 at such time when 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 the 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 the registered capital of the 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.

31. CAPITAL AND RESERVES *(Continued)*

(e) Distributability of reserves

As at 30 June 2010, the aggregate amount of reserves available for distribution to owners of the Company amounted to approximately HK$197,417,000 (2009: HK$87,580,000) 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$236,614,000 (2009: HK$114,391,000) and HK$11,527,000 (2009: HK$11,527,000) respectively, less accumulated losses of approximately HK$50,724,000 (2009: HK$38,338,000), 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.

(f) Capital management

The Group's objectives when managing capital are to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate.

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

31. CAPITAL AND RESERVES *(Continued)*

(f) Capital management *(Continue)*

The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as total equity, as shown in the consolidated statement of financial position, plus net debt. The Group's strategy is to maintain a gearing ratio of not exceeding 40%. The gearing ratios at 30 June 2010 and 2009 were as follows.

During the year ended 30 June 2010, the Group's strategy, which was unchanged from 2009, was to maintain a gearing ratio of within 20% to 40%. The gearing ratios at 30 June 2010 and 2009 were as follows:

	2010 HK$'000	2009 HK$'000
Bank loans	544,927	304,433
Less: Cash and cash equivalents	(95,234)	(112,621)
Net debt	449,693	191,812
Total equity	895,456	707,443
Total capital	1,345,149	899,255
Gearing ratio	33%	21%

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

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary during the year ended 30 June 2010

On 21 September 2009, the Group obtained control of 江西遠洋化肥有限公司 ("江西遠洋") by acquiring 100% equity interest and voting right in 江西遠洋 which is engaged in manufacturing and selling of plant growth regulatory products and fertilizers.

The following summarised the recognised amounts of identifiable assets acquired and liabilities assumed as at 21 September 2009:

	Note	**2010 HK$'000**
Net assets acquired of		
Property, plant and equipment		**32,045**
Inventories		**36**
Trade and other receivables	*(ii)*	**1,137**
Cash and cash equivalents		**370**
Trade and other payables		**(27,156)**
		6,432
Excess of the Group's share of net fair value of interest in a subsidiary acquired over the cost of acquisition		**–**
		6,432
Satisfied by:		
Cash consideration		**6,432**
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the subsidiary:		
Cash consideration paid		**6,432**
Cash and cash equivalents acquired		**(370)**
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary		**6,062**

(i) The fair value of the identifiable assets and liabilities of 江西遠洋 as at 21 September 2009 is approximately the same as the corresponding carrying amount immediately before the acquisition.

(ii) The trade and other receivables in this transaction with a fair value of HK$1,137,000 had gross contractual amounts of HK$1,137,000. There is no expected uncollectible balance.

(iii) 江西遠洋 contributed revenue of Nil and loss of HK$395,745 for the year ended 30 June 2010. Had the acquisition been completed on 1 July 2009, management estimates total Group's revenue was Nil and loss would have been approximately HK$396,255. In determining these amounts, management assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occured on 1 July 2009.

The above pro forma information on the Group's revenue and result is for illustrative purpose only and is not necessarily indicative of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 July 2009, nor is it intended to be a projection of future results.

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

(b) Disposal of subsidiaries during the year ended 30 June 2010

During the year ended 30 June 2010, the Group reduced the equity interests by disposing 75% interest from 100% to 25% of 福州平衡施肥科技有限公司 and 73.5% interest from 98.5% to 25% of 荊門市浩倫農科磷化有限公司 to independent third parties pursuant to the Group's plan of restructuring its manufacturing operation. These two former subsidiaries become available-for-sale investment of the Company because the Group have no significant influence of these former subsidiaries. The Group have no significant influence because it does not have a right to present in the board and the Group's shares bear no voting right. The Company also deregistered three subsidiaries during the year.

The two sold out subsidiaries were 福州平衡施肥科技有限公司 and 荊門市浩倫農科磷化有限公司. The three deregistered subsidiaries are 漳平市東方農業發展有限公司, 平江縣新潤農業科技有限公司 and 安溪浩倫茶葉作物科學有限公司. All of them are engaged in trading of fertilizers, pesticides and other agricultural products.

The cash flows and the carrying amount of net assets of the subsidiaries disposed and deregistered at the date of disposal were as follows:

	2010 HK$'000
Property, plant and equipment	10,069
Lease premium for land	5,157
Intangible assets	3,458
Inventories	6,665
Trade and other receivables	11,575
Cash and cash equivalents	3,052
Trade and other payables	(43,078)
Tax payable	(3,512)
Amount due from the Group	24,322
Net assets disposed of	17,708
Non-controlling interest	(724)
Attributable goodwill	4,882
Exchange reserve	(157)
	21,709
Less:	
Cash consideration	(11,812)
Fair value of 25% interest retained	(1,423)
Loss on disposal of subsidiaries	8,474
Satisfied by:	
Cash	11,812
Net cash inflow arising on disposals	11,812
Cash consideration received	(3,052)
Cash and cash equivalents disposed of	8,760

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

(b) Disposal of subsidiaries during the year ended 30 June 2010 *(Continued)*

The fair value of investment retained in and the amount owned to the former subsidiaries were as follows.

	2010 HK$'000
Investment in former subsidiaries	**1,423**
Amount due from the Group	**18,337**

The fair value of the investment retained in the former subsidiaries at the date of disposal regarded as the fair value on initial recognition of available-for-sale financial assets set out in note 18.

(c) Disposal of subsidiaries during the year ended 30 June 2009

During the year ended 30 June 2009, the Group disposed of the entire interests of seven subsidiaries of the Group through either deregistration or sold to independent third parties due to the poor performance. The five deregistered subsidiaries were 福州浩倫技術咨詢有限公司, 福州浩倫植保服務有限公司, 綏芬河浩倫經貿有限公司, 合肥保豐農資有限公司 and 臨汾浩倫農業科技有限公司. The two sold out subsidiaries were 吉安市浩倫農業科技有限公司 and 山西永興肥業有限公司. All these subsidiaries were engaged in trading of fertilizers, pesticides and other agricultural products.

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

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

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

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

During the year ended 30 June 2009, a jointly-controlled entity of the Group 湖南湘農農資貿易有限公司 was disposed of to a partner of the jointly-controlled entity. This disposed company is engaged in the trading of fertilizers, pesticides and other agricultural products.

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

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

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

33. RETIREMENT BENEFIT SCHEMES

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

(b) Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement plan (the "Plan") organised by the local government authorities whereby the subsidiaries are required to contribute to the Plan to fund the retirement benefits of the eligible employees. Contributions made to the Plan are calculated at a certain percentage of the payroll costs 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.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(a) Credit risk

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

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

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

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(a) Credit risk *(Continued)*

i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, the Group had certain concentration risk as 11% (2009: 11%) and 22% (2009: 30%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 22.

ii) Deposit with financial institutions

The Group limits its exposure to credit risk by placing deposits with financial institutions that meet the established credit rating or other criteria. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

iii) Advances to suppliers

The Group reviews the recoverable amount of the prepayment at the end of each reporting period.

(b) Liquidity risk

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

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

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Liquidity risk *(Continued)*

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

	2010				2009			
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000
The Group								
Trade and other payables	1,316,047	1,316,047	1,316,047	–	1,482,729	1,482,729	1,482,729	–
Convertible bonds	29,859	31,673	896	28,963				
Bank loans	544,927	554,741	548,542	6,199	304,433	312,063	312,063	–
	1,890,833	1,902,461	1,865,485	35,162	1,787,162	1,794,792	1,794,792	–
The Company								
Convertible bonds	28,963	31,673	896	28,963	–	–	–	–
Trade and other payables	1,411	1,411	1,411	–	1,625	1,625	1,625	–
	30,374	33,084	2,307	28,963	1,625	1,625	1,625	–

(c) Interest rate risk

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

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Interest rate risk *(Continued)*

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	The Group			
	2010		2009	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Fixed rate borrowings:				
Bank loans	**3.80 – 7.43**	**398,636**	3.10 – 8.96	235,141
Variable rate borrowings:				
Bank loans	**1.28 – 6.37**	**146,291**	3.00-7.33	69,292
Total borrowings		**544,927**		304,433
Fixed rate borrowings as a percentage of total borrowings		**73.2%**		77.2%

(ii) Sensitivity analysis

At 30 June 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately HK$1,463,000 (2009: HK$693,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting period. The analysis is performed on the same basis for 2009.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Currency risk

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

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

(i) Exposure to currency risk

The following table details the Group's significant exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in foreign currencies.

The Group

	2010		2009
	EUR	**USD**	USD
	'000	**'000**	'000
Trade and other receivables	**–**	**7,179**	4,849
Cash and cash equivalents	**–**	**393**	1,991
Trade and other payables	**–**	**–**	–
Bank loans	**(1,293)**	**(6,178)**	(509)
Overall net exposure	**(1,293)**	**1,394**	6,331

(ii) Sensitivity analysis

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

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis *(Continued)*

The Group

	2010			2009		
	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits HK$'000	Effect on other components of equity HK$'000	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits HK$'000	Effect on other components of equity HK$'000
USD	1	81	–	1	368	–
	(1)	(81)	–	(1)	(368)	–
EUR	1	92	–	–	–	–
	(1)	(92)	–	–	–	–

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for 2009.

(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.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(f) Fair value

All financial assets and liabilities are stated at fair value or carried at amounts not materially different from their fair values as at end of the reporting period. The fair value of the trading securities is determined by reference to published price quotations in active markets.

The following table provides an analysis of financial instruments that are measured at fair value at the end of the reporting period, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in this entirety.

	The Group and The Company							
	2010				2009			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at fair value through profit or loss								
Trading securities	–	1,292	–	1,292	–	–	–	–
Available-for-sale financial asset								
– Investment in former subsidiaries	–	–	1,423	1,423	–	–	–	–
	–	1,292	1,423	2,715	–	–	–	–
Financial liabilities at fair value through profit or loss								
Convertible bonds	–	29,859	–	29,859	–	–	–	–

There were no significant transfers between instruments in Level 1 and Level 2 during the year.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(f) Fair value *(Continued)*

The movement during the year in the balance of Level 3 fair value measurements is as follows:

	The Group HK$'000
Investment in former subsidiaries:	
At 1 July 2009	–
25% investment in former subsidiaries are retained	1,423
At 30 June 2010	1,423
Total gains or losses for the year reclassified from other comprehensive income on disposal	–
Total gains or losses for the year included in profit or loss for assets held at the end of reporting period	–

(g) Equity price risk

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

35. COMMITMENTS

(a) At 30 June 2010, there was no significant capital commitments not provided for in the consolidated financial statements (2009: nil).

(b) At 30 June 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2010 **HK$'000**	2009 HK$'000
Within 1 year	**9,039**	4,154
After 1 year but within 5 years	**9,614**	5,978
After 5 years	**5,583**	5,292
	24,236	15,424

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

36. MATERIAL RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year.

(a) Guarantee given by a director of the Company

At 30 June 2010, Mr. Wu Shaoning, a director of the Company, gave personal guarantees to the extent of HK$810,288,000 (2009: HK$669,238,000) in favour of banks for banking facilities granted to the Group.

(b) Guarantee given by a non-controlling shareholder of the subsidiaries

At 30 June 2010, 大豐市新農農業生產資料有限公司, a non-controlling shareholder of a subsidiary of the Group pledged its properties to banks for banking facilities of approximately HK$9,560,000 (2009: 9,074,000) granted to that subsidiary of the Group.

(c) Disposals of jointly-controlled entities

During the year ended 30 June 2009, the Group disposed of a jointly-controlled entity, namely 湖南湘農農資貿易有限公司, engaged in trading of fertilizers, pesticides and other agricultural products to 湖南湘農農業生產資料有限公司, a partner of the jointly-controlled entity, for a consideration of HK$3,391,000. The Group recorded a gain of HK$757,000 on the disposal.

(d) Key management personnel remuneration

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Short-term employee benefits	**2,682**	2,344
Post-employment benefits	**58**	58
Share-based payments	**1,642**	–
	4,382	2,402

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

36. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(e) Financing arrangements

Amount due to a director	The Group	
	2010	2009
	HK$'000	HK$'000
At beginning of the year	**12,270**	11,770
Advance from a director	**6,040**	590
Repayment to a director	**(16,120)**	(90)
At end of the year	**2,190**	12,270

The amount due to Mr. Wu Shaoning, a director of the Company, is included in trade and other payables (note 26). The amount due to the directors is unsecured, interest-free and repayable on demand.

37. ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

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

(i) Valuation of investment properties

Investment properties are included in the statement of financial position at an open market basis calculated by depreciated replacement cost approach, which is assessed annually by independent qualified valuers, after taking into consideration all readily information and current market environment.

(ii) Depreciation and amortisation

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

37. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

(iii) Assessment of impairment of non-current assets

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

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

(iv) Capitalisation of product development costs

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

(v) Write down of inventories

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

(vi) Impairment for bad and doubtful debts

The Group provides impairment loss for bad and doubtful debts based upon evaluation of the recoverability of the trade and other receivables at each of the reporting period. 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.

37. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

(vii) Tax provision

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

(viii) Recognition of deferred tax assets

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

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

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

38. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 22 June 2010, the Company, Mr. Wu Shaoning, an executive director, the chairman and controlling shareholder of the Company as a vendor and another eight vendors (collectively, the "Vendors") and six additional warrantors entered into a sales and purchase agreement dated 22 June 2010, as amended by a supplemental agreement dated 27 July 2010 (the "Agreement"), pursuant to which the Company agreed to acquire from the Vendors the sale shares, representing all issued shares in the Present Sino Limited ("Target Company"), a company incorporated in the BVI with limited liability and is wholly owned by the Vendors, for an aggregate consideration of HK$1,000,000,000 to be satisfied by the issue of promissory notes and convertible Bonds.

The principal business of the Target Company and its subsidiaries is, among other things, research and development, nursing, planting and sales of landscaping seedlings, led by whitebark pine and other rare seedlings. The Target Company's wholly-owned PRC subsidiary (i.e. Shanxi-Astro-Wood Bio-Engineering Development Co., Limited) owns seedling bases located in Shanxi Province and Beijing, the PRC, and is planning on the construction of new seedling promotion parks in Shanxi, Beijing and Tianjin, the PRC.

The Agreement and the transactions contemplated thereunder are expected to be completed in November 2010.

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 30 JUNE 2010

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 2010 and which have not been adopted in these financial statements.

The Group has not early applied any of the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[1]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[1]
HKFRS 9	Financial Instruments[5]
HK(IFRIC)–Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC)–Int 19	Extinguishing Financial Liabilities with Equity Instruments[4]

1 Effective for annual periods beginning on or after 1 January 2010.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 January 2011.
4 Effective for annual periods beginning on or after 1 July 2010.
5 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. In addition, under HKFRS 9, changes in fair value of equity investments are generally recognized in other comprehensive income, with only dividend income recognized in profit or loss. The application of HKFRS 9 might affect the classification and measurement of the Company's financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments as at the end of the reporting period. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Company's leasehold land at revalued amount.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the financial statements.