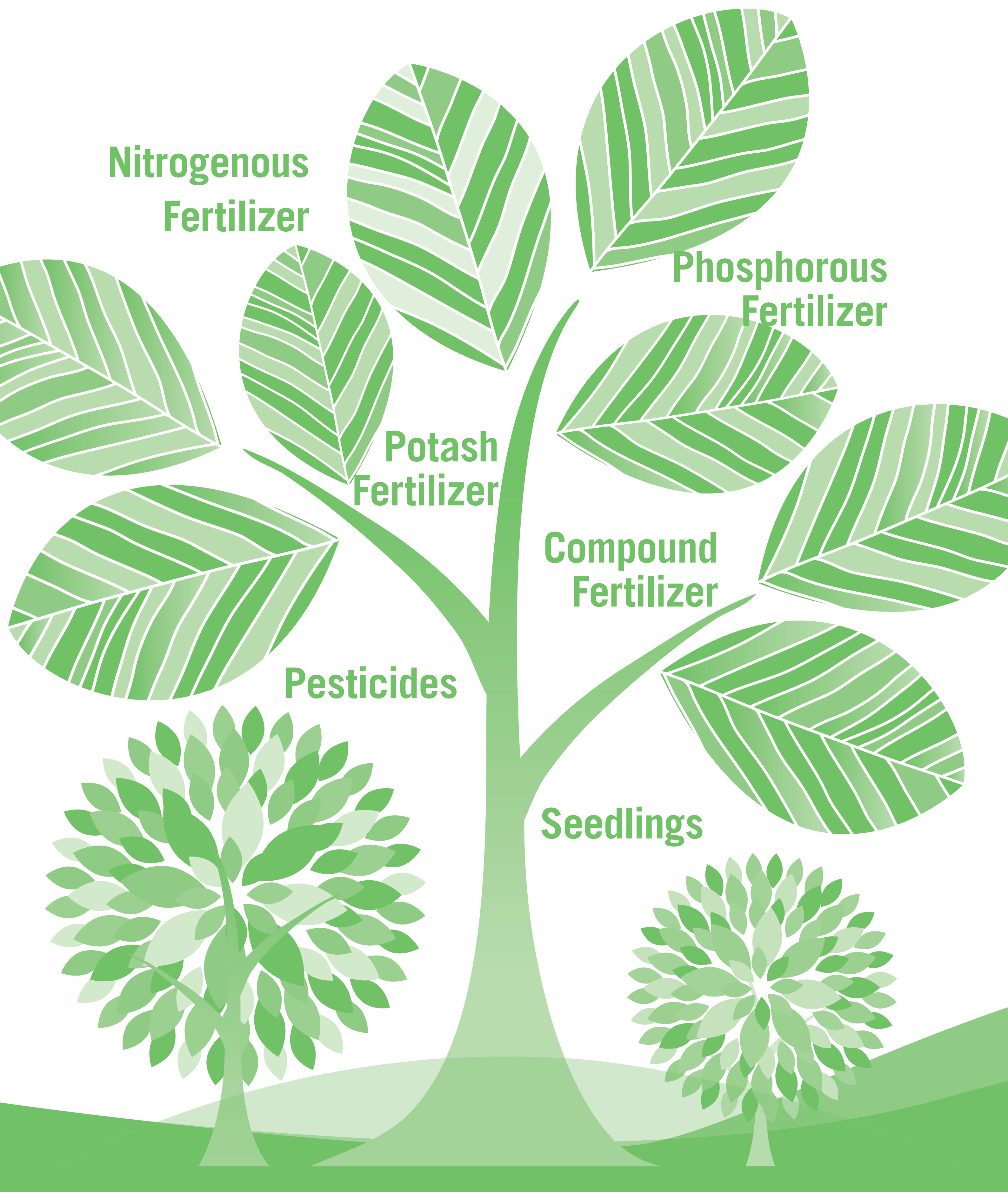
China Agrotech Holdings Limited

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

Annual Report
2011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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
Standard Chartered Bank
Industrial and Commercial Bank of China
Agricultural Bank of China
China Construction Bank
China Merchants Bank
Shanghai Pudong Development Bank
Industrial Bank
Huaxia 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				
	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Turnover	**4,242,804**	3,362,029	3,178,420	2,894,984	2,552,044
Cost of sales	**(3,981,200)**	(3,183,660)	(2,966,047)	(2,608,179)	(2,317,068)
Gross profit	**261,604**	178,369	212,373	286,805	234,976
Valuation gains/(losses) on investment properties	**—**	—	595	(9,594)	5,064
Other revenue and other net income	**35,695**	39,619	44,767	41,999	24,682
Loss arising from change in fair value less costs to sell of biological assets	**(34,679)**	—	—	—	—
Gain from bargain purchases on acquisition of subsidiaries	**217,285**	—	—	—	—
Gain from change in fair value of derivative financial liabilities	**40,817**	—	—	—	—
Distribution costs	**(52,975)**	(48,764)	(76,757)	(98,335)	(74,231)
Administrative expenses	**(107,019)**	(73,374)	(57,650)	(73,792)	(67,235)
Other expenses	**(13,075)**	(4,161)	(9,790)	(1,222)	(6,026)
Write down of inventories	**—**	(5,847)	(24,510)	—	—
Loss on disposal of subsidiaries	**(5,143)**	(8,474)	(12,226)	—	—
Loss on disposal of biological assets	**(121,569)**	—	—	—	—
Profit from operations	**220,941**	77,368	76,802	145,861	117,230
Finance costs	**(84,369)**	(30,093)	(51,069)	(43,803)	(31,513)
Profit before taxation	**136,572**	47,275	25,733	102,058	85,717
Income tax	**(6,317)**	(16,394)	(13,816)	(15,788)	(8,839)
Profit for the year	**130,255**	30,881	11,917	86,270	76,878
Attributable to:					
— Owners of the Company	**126,558**	29,793	11,067	82,423	80,592
— Non-controlling interests	**3,697**	1,088	850	3,847	(3,714)
	130,255	30,881	11,917	86,270	76,878

	As at 30 June				
	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Total non-current assets	**1,239,280**	255,606	257,793	235,729	228,180
Total current assets	**3,748,506**	2,568,670	2,274,415	2,115,613	1,880,139
Total current liabilities	**(2,812,101)**	(1,903,947)	(1,824,765)	(1,654,745)	(1,545,928)
Net current assets	**936,405**	664,723	449,650	460,868	334,211
Total assets less current liabilities	**2,175,685**	920,329	707,443	696,597	562,391
Non-current liabilities	**(754,409)**	(34,881)	—	—	—
Net assets	**1,421,276**	885,448	707,443	696,597	562,391
Total equity attributable to owners of the Company	**1,398,055**	864,597	687,184	678,950	555,967
Non-controlling interests	**23,221**	20,851	20,259	17,647	6,424
Total equity	**1,421,276**	885,448	707,443	696,597	562,391

CHAIRMAN'S STATEMENT

I am pleased to present to the shareholders the annual results of China Agrotech Holdings Limited ("China Agrotech" or the "Company") and its subsidiaries (collectively the "Group") for the year ended 30 June 2011 for their consideration.

TURNOVER AND PROFITS

For the year ended 30 June 2011, the consolidated turnover of the Group was approximately HK$4,242,804,000 (2010: HK$3,362,029,000), representing a growth of approximately 26%; and the profit attributable to owners of the Company was approximately HK$126,558,000 (2010: HK$29,793,000), representing an increase of approximately 325%. Excluding the effect of certain non-cashflow items (i.e. loss arising from change in fair value less costs to sell of biological assets, gain from bargain purchases on acquisition of subsidiaries, gain from change in fair value of derivative financial liabilities and notional interest expense on financial liabilities) and the one-off loss on disposal of the whole biological assets of a seedling plantation base, net profit was approximately HK$60,697,000 (2010: HK$31,348,000), representing an increase of approximately 94%.

BUSINESS REVIEW

After having undergone two years' trough of the operating environment as affected by worldwide economic situation, there were signs of recovery in the fertilizer market during the first half of 2010, which become more obvious during the year under review. Leveraging on its extensive experience in management of its existing agricultural resources operation, and also prompt and decisive adjustment to its market and investment strategies, annual turnover reached HK$4.24 billion, representing a remarkable growth of around 26% over the previous year. The Group was also able to improve its gross profit margins to approximately 6.2% (2010: approximately 5.3%). Moreover, the Group actively controlled its cost and inventory level, as well as made successful new investments, and hence achieved satisfactory result, making our net profit (after excluding certain non-cashflow and one-off items) for the year increase by 94% to HK$60,697,000.

During the year under review, the Group's distribution network demonstrated the effect of consolidation under the steadily recovering business environment and contributed to the remarkable growth of the Group's turnover. During the year, prices of agricultural resources products showed obvious increase, nevertheless, 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 1.12 million tonnes (2010: 1.07 million tonnes), representing an increase of about 5%. Coupled with the contribution from the newly acquired pesticide manufacturer and seedling business, the Group recorded a gross profit of approximately HK$262 million (2010: approximately HK$178 million), representing a sharp increase of approximately 47% over the last year. Average gross profit margin of agricultural resources products that made up 76% of total turnover increased from approximately 5.3% last year to approximately 6.1% 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, compound 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 and profit margin.

CORPORATE STRATEGIES AND PROSPECTS

In the year 2011, the PRC government continued its policy 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 "50-Billion-Kilogram Grain Production Capacity Expansion Program" launched by the Central Government demonstrated its diligence to take 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.

On the other hand, in view of the uncertainties of the worldwide economic environment arising from debt crises of some European countries and effectiveness of economic stimulation policies of the United States, the Group will continue to strengthen its risk management and will take a prudent approach in the hope of steering clear of adversities in the coming year. The Group will also closely review its business model in order 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 continuously 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. 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, 30 September 2011

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL RESULTS

For the year ended 30 June 2011, the Group's consolidated turnover was approximately HK$4,242,804,000 (2010: HK$3,362,029,000) and net profit attributable to owners of the Company was approximately HK$126,558,000 (2010: HK$29,793,000), representing a growth of about 26% and 325% respectively as compared to those of the last year. Net profit, excluding the impact of certain non-cashflow items (i.e. loss arising from change in fair value less costs to sell of biological assets, gain from bargain purchases on acquisition of subsidiaries, gain from change in fair value of derivative financial liabilities and notional interest expense on financial liabilities) and the one-off loss on disposal of the whole biological assets of a seedling plantation base, was approximately HK$60,697,000 (2010: HK$31,348,000), representing an increase of about 94%.

The Group's business can be divided into three categories, namely, (i) agricultural resources operation; (ii) trading of non-agricultural resources products; and (iii) seedling operation. 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 seedling operation represents a newly acquired business which contributed eight months' results for the reporting period.

The major factors causing the increase in net profit for the year were the increase in turnover coupled with improvement in gross profit margin of agricultural resources operation; and the operation profit contribution from the newly acquired seedling business during the year.

The overall increase in gross profit margin of agricultural resources products from approximately 5.3% last year to 6.1% this year was mainly due to the gradual market resumption and obvious increase in selling prices of fertilizers and pesticides during the year. Moreover, the Group's acquisition of a pesticide manufacturer and the seedling business during the year also made contribution to the remarkable increase in turnover and gross profit of the Group.

Existing businesses — agricultural resources operation and trading of non-agricultural resources products:

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

	2011		2010	
	Turnover HK$'000	Percentage of the total turnover	Turnover HK$'000	Percentage of the total turnover
Agricultural resources operation				
nitrogenous fertilizer	347,406	8%	320,887	10%
phosphorous fertilizer	563,920	14%	452,167	13%
potash fertilizer	656,126	16%	507,764	15%
compound fertilizer	1,167,528	28%	825,698	25%
pesticides	473,952	12%	474,565	14%
Agricultural resources products (subtotal)	3,208,932	78%	2,581,081	77%
Trading of non-agricultural resources products	917,796	22%	780,948	23%
Total	4,126,728	100%	3,362,029	100%

Aggregate sales volume of fertilizers, including nitrogenous fertilizer, phosphorous fertilizer, potash fertilizer and compound fertilizer, increased by about 5% from approximately 1,070,000 tonnes last year to approximately 1,120,000 tonnes this year. The aggregate turnover of fertilizers for this year was approximately HK$2.735 billion, representing an increase of about 30% as compared to approximately HK$2.107 billion last year.

For pesticides, turnover of approximately HK$474 million was comparable to HK$475 million of the last year.

Turnover for the trading of non-agricultural resources products increased from approximately HK$781 million last year to approximately HK$918 million this year.

Aggregate gross profit and reportable segment profit before taxation from existing businesses amounted to approximately HK$222,389,000 (2010: HK$178,369,000) and HK$57,206,000 (2010: HK$63,455,000) respectively, representing an increase of approximately 25% and a decrease of approximately 10% respectively as compared to the last year. The decrease in reportable segment profit of existing businesses was mainly due to the increase in finance cost during the year. Overall gross profit margin from existing businesses slightly increased from approximately 5.3% last year to 5.4% this year, which was mainly attributable to increase in selling prices of agricultural resources products during the 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 still thin and the Group recorded a gross profit margin of approximately 2.0% (2010: 1.8%). Therefore, in order to better allocate the Group's working capital resources and minimize operational risks, the Group reduced the trading of nitrogenous fertilizer since the last year and therefore, the sales volume decreased to approximately 170,000 tonnes (2010: 180,000 tonnes) while turnover increased by 8% to HK$347 million (2010: HK$321 million) due to increase in market price.

(2) Phosphorous fertilizer

During the financial year under review, 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 3% to approximately 360,000 tonnes (2010: 350,000 tonnes), while turnover increased by 25% to HK$564 million (2010: HK$452 million) due to increase in market price. Moreover, the gross profit margin increased from approximately 4.2% last year to approximately 4.6% this year due to increase in selling price and sales of products with relatively higher margins.

(3) Potash fertilizer

During the year, there was an obvious increase in domestic demand for potash fertilizer, causing a favourable increase in market price. The Group continued to leverage on the advantages of central purchase and its own network to expand the operation of potash fertilizer, as a result, sales volume of potash fertilizer for the year sharply increased by 20% to 180,000 tonnes (2010: 150,000 tonnes) while turnover increased by 29% to approximately HK$656 million (2010: HK$508 million). Moreover, due to the increase in selling prices, the gross profit margin increased from approximately 3.8% last year to 4.4% 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 continued to optimize the product mix of compound fertilizer products to accommodate market demand. Sales volume increased from approximately 390,000 tonnes last year to approximately 410,000 tonnes this year. Turnover sharply increased by 41% to approximately HK$1,168 million (2010: HK$826 million) while gross profit margin increased from approximately 5.2% last year to approximately 6.2% this year due to increase in selling price and sales of products with higher profit margin.

(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. As a result of the Group's increase in sales of self-manufactured pesticide products, including those through the newly acquired Shandong pesticide manufacturer during the year, while reduced the trading of products sourced outside with relatively lower profit margins, turnover of approximately HK$474 million was comparable to that of the last year (2010: HK$475 million). Consequently, the average gross profit margin of pesticides increased from approximately 10.4% last year to approximately 12.9% this year.

As a part of the Group's restructuring plan of its manufacturing operation, apart from the disposal of two subsidiaries engaged in the production of phosphorous fertilizers and compound fertilizers respectively in the last year, the Group also acquired a Shandong pesticide manufacturer in order to strengthen its position in the pesticide market.

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. However, in view of the uncertainties of the worldwide economic environment, the Group shortened the stock turnover days in order to minimize risk. As a result, turnover increased by 18% to approximately HK$918 million (2010: HK$781 million) while gross profit decreased by 36% to HK$27.0 million (2010: HK$42.3 million) respectively this year.

Gross profit margin also decreased from approximately 5.4% last year to approximately 2.9% this year due to the shortened sales cycle and shrinked profit margins of commodities and resources products during the year.

Newly acquired business — seedling operation:

The Group completed the acquisition of a landscaping seedling enterprise on 1 November 2010. The enterprise, namely, Shanxi Astro-wood, currently operates a total of six seedling plantation bases in Shanxi and Beijing for the nursing, planting and sale of rare landscaping seedlings in the PRC and contributed eight months' results to the Group during the year. During the year, Shanxi Astro-wood contributed a turnover and net profit of approximately HK$116 million and HK$31.6 million respectively to the Group from ordinary sales of seedlings (excluding the loss arising from change in fair value less costs to sell of biological assets). On the other hand, Shanxi Astro-wood recorded a special loss of HK$121.6 million arising from disposal of a seedling base having biological assets with an aggregate carrying value of approximately HK$251.2 million, as its strategic planning of diversifying its seedling product mix when coupled with the purchase of new seedling species, and in view of the anticipated high plantation maintenance expenditure that the management expected that the future costs to maintain these biological assets would outweigh the economic benefits to be derived therefrom.

During the year, Shanxi Astro-wood was involved in a litigation against it in respect of a seedling base which was purchased by it at the time when it was yet to be acquired by the Company. The Board was of the view that the alleged claim was illegitimate and irrational, and our legal advisor opined that the claim would probably be rebutted by the court. Details of the litigation is disclosed under Note 41 to the financial statements.

MATERIAL ACQUISITIONS

Acquisition of Present Sino Group:

On 22 June 2010, the Company, the vendors and the warrantors entered into a sale and purchase agreement (as amended by a supplemental agreement dated 27 July 2010) in which the Company agreed to purchase the entire interests of Present Sino Limited and its subsidiaries ("Acquisition of Present Sino Group") at a consideration of HK$1,000,000,000. The Acquisition of Present Sino Group was completed on 1 November 2010 and the said consideration was satisfied (i) as to HK$800,000,000 by the issue of the convertible bonds; and (ii) as to HK$200,000,000 by the issue of the promissory notes. The Acquisition of Present Sino Group allowed the Company to diversify its scope of agriculture business to seedling industry in the PRC, enlarged its asset base and enhanced its source of income. The Acquisition of Present Sino Group constituted a very substantial acquisition and connected transaction of the Company and was approved by the independent shareholders of the Company at the extraordinary general meeting held on 15 October 2010, the details of the acquisition are set out in the Company's circular dated 25 September 2010.

Acquisition of Fast Base Group:

On 29 October 2010, the Company and the vendor entered into a sale and purchase agreement in which the Company agreed to purchase the entire interests of Fast Base Holdings Limited and its subsidiaries ("Acquisition of Fast Base Group") at a consideration of RMB70,000,000 (equivalent to approximately HK$81,395,000). The Acquisition of Fast Base Group was completed on 2 November 2010. The said consideration was satisfied (i) as to RMB11,520,000 (equivalent to approximately HK$13,395,000) by cash after the completion; and (ii) as to RMB58,480,000 (equivalent to approximately HK$68,000,000) by the allotment and issue of 68,000,000 consideration shares at the issue price of HK$1.00 each, subject to adjustments. The allotment and issue of consideration shares will be settled in two tranches upon the finalization of the audited results of Fast Base Group for the years ending 30 June 2011 and 2012 respectively, and be subject to adjustments, if any, based on the achievement of the guaranteed profits in accordance with the terms and conditions of the sale and purchase agreement. The Acquisition of Fast Base Group enabled the Group to expand its manufacturing operation in respect of pesticides and thereby enhanced its market share in the pesticides market and generated synergy effect with its existing distribution network of agricultural resources products. The Acquisition of Fast Base Group constituted a discloseable transaction of the Company, the details of which are set out in the Company's announcement dated 29 October 2010.

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 2011, cash and cash equivalents and restricted bank deposits of approximately HK$788 million included HK$775 million which was denominated in Renminbi and HK$13 million which was denominated in Hong Kong/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 issue of convertible bonds and unlisted warrants, which amounted to an aggregate net proceeds of approximately HK$79.6 million. The funds raised were used as general working capital of the Group.

Indebtedness and banking facilities

As at 30 June 2011, the Group had bank loans of approximately HK$689,424,000 (approximately HK$502,401,000 was denominated in Renminbi and approximately HK$187,023,000 was denominated in US/Euro dollars) bearing interest at rates ranging from approximately 3% to 11% per annum. As at 30 June 2011, the Group had bills payable of approximately HK$1,497 million which was secured by pledged bank deposits of approximately HK$605 million.

As at 30 June 2011, the Group had (i) convertible bonds (due in July 2011) with outstanding principal amount of HK$29,880,000 which was denominated in Hong Kong dollars and bore interest at 3% per annum; (ii) convertible bonds (due in November 2015) and promissory notes (due in December 2012) with outstanding principal amount of HK$663 million and HK$200 million respectively, both were denominated in Hong Kong dollars and non-interest bearing; and (iii) convertible bonds (due in January 2016) with outstanding principal amount of RMB70 million which was denominated in Renminbi and bore a yield-on-maturity/redemption of 6% per annum on a compound basis.

As at 30 June 2011, the Group's gearing ratio is approximately 103%. This was based on the division of the total amount of bank loans, promissory notes and convertible bonds (liability components) by total equity attributable to owners of the Company as at 30 June 2011. The Directors, taking into account of the nature and scale of operations and capital structure of the Group, considered that the gearing ratio as at 30 June 2011 was healthy.

Securities in issue

On 1 November 2010, the Company issued convertible bonds ("CB due 2015") in the aggregate principal amount of HK$800,000,000 as part of the consideration for the Acquisition of Present Sino Group as mentioned under the section headed "Material Acquisitions". The CB due 2015 are non-interest bearing with a maturity date on the 5th anniversary of the issue date (i.e. 1 November 2015) and entitle the holders to convert the CB due 2015 into shares of the Company at a conversion price of HK$1.00 per share (subject to adjustments). The Company shall redeem the then outstanding CB due 2015 at its principal amount on the maturity date. The CB due 2015 in the principal amount of HK$132,000,000 are subject to lock-up arrangements, further details of which are set out in the Company's circular dated 25 September 2010. During the year, the CB due 2015 with an aggregate principal amount of HK$137,000,000 was converted into 137,000,000 shares of the Company at the conversion price of HK$1.00 each.

On 26 November 2010, the Company entered into a convertible bond subscription agreement and a warrant subscription agreement. By the extraordinary general meeting held on 29 December 2010, shareholders of the Company approved the said agreements and upon the fulfillment of all the conditions precedent set out in the said agreements, the Company completed the issue of RMB70 million zero coupon unsecured convertible bonds ("CB due 2016") and the issue of unlisted warrants ("Unlisted Warrants") on 28 January 2011 ("Issue Date").

(A) CB due 2016

The CB due 2016 are non-interest bearing with a maturity date on the 5th anniversary of the Issue Date (i.e. 28 January 2016) and entitle the bondholders to convert the principal amount of the CB due 2016 plus an accreted yield of 6% per annum on a compound basis thereon into shares of the Company at the conversion price of HK$1.00 per share (subject to adjustments and resets). The major terms of the CB due 2016 include, inter alia, a put option of the bondholders which is exercisable on the one and only one date of 28 January 2014 and a mandatory conversion option of the Company from 29 January 2014 up to the maturity date, details of which are set out in the Company's circular dated 9 December 2010. On the maturity date, the outstanding amount of the CB due 2016 will be automatically redeemed by the Company at a redemption amount that provides the bondholders with an internal rate of return of 6% per annum on a compound basis on the principal amount of such convertible bonds calculated from the Issue Date to maturity.

(B) Unlisted Warrants

The Company issued 30 Unlisted Warrants at the issue price of HK$0.03 per subscription right for one share attached to the Unlisted Warrants, each conferring right to subscribe for 2,000,000 shares of the Company at the initial subscription price of HK$1.20 per share (subject to adjustments) at any time during the period from 28 January 2011 to 28 January 2016. An initial maximum of 60,000,000 shares will be allotted and issued upon full exercise of the Unlisted Warrants.

As at 30 June 2011, there were 779,765,216 ordinary shares in issue and potential ordinary shares arising from (i) a total of 48,670,000 share options outstanding (comprising 400,000 share options at the exercise price of HK$0.55 per share and 48,270,000 share options at the exercise price of HK$0.72 per share); (ii) the 3% coupon convertible bonds due in July 2011 in an aggregate outstanding principal amount of HK$29,880,000 at the conversion price of HK$0.90 per share (subject to adjustments), which was subsequently redeemed on maturity in July 2011; (iii) the CB due 2015 in an aggregate outstanding principal amount of HK$663,000,000 at the conversion price of HK$1.00 per share (subject to adjustments); (iv) the CB due 2016 in an aggregate outstanding accreted principal amount of approximately HK$83,734,000 (being original principal of HK$81,680,000 plus accrued interest of HK$2,054,000) at the conversion price of HK$1.00 per share (subject to adjustments and resets); and (v) unlisted warrants conferring rights to subscribe for 60,000,000 shares at the subscription price of HK$1.20 per share.

Commitments

As at 30 June 2011, the Group had no significant outstanding contracted capital commitments.

Contingent liabilities

As at 30 June 2011, except for the uncertainty of financial liabilities in respect of corporate guarantees provided by a PRC subsidiary as detailed in the "Independent Auditor's Report" of this annual report, 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$33.9 million with an average number of about 1,000 staff during the year ended 30 June 2011.

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. During the year ended 30 June 2011, no share option was granted to the relevant participants under the Scheme (2010: 48,970,000 share options were granted).

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Wu Shaoning

aged 46, 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 19 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 46, 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 47, 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 Law Society of Hong Kong 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.

Mr. Zhang Shaosheng

aged 60, 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 36 years of experience in the teaching of plant protection.

Mr. Wong Kin Tak

aged 39, was appointed as an Independent Non-executive Director of the Company in 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 17 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.

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 2011.

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 pesticides and fertilizers ("Manufacturing operation"); (iii) the provision of plant protection technical services ("Consultancy operation"); (iv) the trading of non-agricultural resources products ("Non-agricultural resources trading operation"); and (v) nursing, planting and sales of landscaping seedlings ("Seedling operation") in Mainland China.

An analysis of the principal activities of the operations of the Group for the year ended 30 June 2011 is set out in Note 12 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2011 are set out in the consolidated income statement on page 28 of this annual report. No geographical analysis of the Group's turnover and segment results is presented as the Group's turnover and segment results are all derived from business conducted in Mainland China.

DIVIDEND

The Directors have resolved not to recommend the payment of any final dividend for the year ended 30 June 2011 (2010: Nil) and recommend that the retained profits of approximately HK$533,005,000 as at 30 June 2011 be carried forward.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 34 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 34 to the financial statements respectively.

As at 30 June 2011, the Company's reserve available for distribution to owners of the Company amounted to approximately HK$316,483,000 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$362,235,000 and contributed surplus of approximately HK$11,527,000, less accumulated losses of approximately HK$57,279,000, 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 2011 are set out in Note 21 to the financial statements.

PENSION SCHEMES

Details of the Group's pension schemes for the year ended 30 June 2011 are set out in Note 36 to the financial statements.

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 Kin Tak

In accordance with Article 87 of the Company's Articles of Association, Messrs. Wu Shaoning and Lam Ming Yung 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 2012 and 28 February 2012 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

Biographical details of Directors of the Company are set out on page 12.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2011, 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in shares and underlying shares of the Company

Name of director	Capacity	Number of shares held	Number of underlying shares held	Approximate percentage of issued share capital
Wu Shaoning	Beneficial owner	223,200,000	—	28.62%
	Beneficial owner	—	256,000,000 *(Note)*	32.83%

Note: The 256,000,000 underlying shares are in respect of the convertible bonds due 2015 (unlisted equity derivatives) of the Company in the aggregate principal amount of HK$256,000,000 at a conversion price of HK$1.00 per share (subject to adjustments). Upon full conversion of such convertible bonds, 256,000,000 shares of the Company will be issued to Mr. Wu Shaoning.

Save as disclosed above, as at 30 June 2011, 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 2011, so far as is known to the Directors, the interests or short positions of substantial shareholders/other persons in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO were as follows:

Long positions in shares of the Company

Name	Capacity	Number of shares held	Approximate percentage of issued share capital
Wu Shaoning *(director)*	Beneficial owner	223,200,000	28.62%

Long positions in underlying shares of the Company

Name	Capacity	Number of underlying shares held	*Notes*	Approximate percentage of issued share capital
Wu Shaoning *(director)*	Beneficial owner	256,000,000	*1*	32.83%
Xue Zhixin	Beneficial owner	226,000,000	*1*	28.98%
Concept Capital Management Limited	Beneficial owner	143,734,595	*2*	18.43%
Wang Rong	Beneficial owner	49,000,000	*1*	6.28%
Quality Sino Limited	Beneficial owner	48,000,000	*1, 3*	6.16%
Qiu Baoyu	Interest of controlled corporation	48,000,000	*1, 3*	6.16%
Zhang Yande	Interest of controlled corporation	48,000,000	*1, 3*	6.16%
Charter Basic Limited	Beneficial owner	40,000,000	*1, 4*	5.13%
Wu Zhen Geng	Interest of controlled corporation	40,000,000	*1, 4*	5.13%

Notes:

1. The interests in underlying shares of unlisted equity derivatives represent interests in convertible bonds due 2015 of the Company in which they are unissued shares.

2. The interests in underlying shares of unlisted equity derivatives comprise interests in convertible bonds due 2016 of the Company in which they are unissued shares as to 83,734,595 shares, and interests in unlisted warrants conferring rights to subscribe for 60,000,000 shares of the Company.

3. This represents the same equity interests in the Company. Such interests are held by Quality Sino Limited which is 50% owned by Qiu Baoyu and Zhang Yande respectively.

4. This represents the same equity interests in the Company. Such interests are held by Charter Basic Limited which is wholly-owned by Wu Zhen Geng.

Save as disclosed above, as at 30 June 2011, the Company had not been notified of any other interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register kept by the Company 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 6.24% 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 2010	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at 30 June 2011	Date of grant	Exercisable period	Exercise price per share HK$
Employees:								
In aggregate	400,000	—	—	—	400,000	01/12/2003	01/01/2004–30/12/2011	0.55
	48,270,000	—	—	—	48,270,000	27/07/2009	27/07/2009–30/12/2011	0.72
Total	48,670,000	—	—	—	48,670,000			

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.

RELATED PARTY TRANSACTIONS

Details of related party transactions under applicable accounting standards are set out in Note 39 to the financial statements. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis.

The transaction which constitutes "Connected Transaction" under the Listing Rules is identified below.

CONNECTED TRANSACTION

On 22 June 2011, the Company, the vendors and the warrantors entered into a sale and purchase agreement (as amended by a supplemental agreement dated 27 July 2010) in which the Company agreed to purchase the entire interests of Present Sino Limited and its subsidiaries which are engaged in seedling operation in the PRC (the "Acquisition") at a consideration of HK$1,000,000,000. Mr. Wu Shaoning, being one of the vendors and warrantors in the Acquisition, is an Executive Director and a controlling shareholder (as defined under the Listing Rules), and is therefore a connected person of the Company under Rule 14A.11 of the Listing Rules. As such, the Acquisition constituted a very substantial acquisition and connected transaction under the Listing Rules.

The Acquisition was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 15 October 2010. The Acquisition allowed the Company to diversify its scope of agriculture business to seedling industry in the PRC, enlarged its asset base and enhanced its source of income. The Acquisition was completed on 1 November 2010 and the consideration of HK$1,000,000,000 was satisfied (i) as to HK$800,000,000 by the issue of the convertible bonds; and (ii) as to HK$200,000,000 by issue of promissory notes. Further details are disclosed in the "Management Discussion and Analysis" and Note 39 to the financial statements of this annual report.

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 2011. 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

1. The 3% coupon convertible bonds due in July 2011 with an outstanding principal amount of HK$29,880,000 were redeemed on maturity.

2. The Company was entitled to a compensation of HK$120 million, being consideration adjustment arising from the profit guarantee given by one of the vendors in respect of the acquisition of Present Sino Group, upon publication of the audited results of the Company for the year ended 30 June 2011.

3. The Company is obliged to issue 28,000,000 new shares of the Company to the vendor in respect of the acquisition of Fast Base Group as settlement of the then contingent consideration, upon publication of the audited results of the Company for the year ended 30 June 2011.

4. A litigation against a subsidiary of the Company is pending trial by the court, the details of which is disclosed in Note 41 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, 30 September 2011

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 2011 with code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") 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 was retired and re-elected at the annual general meeting held on 29 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 2011, 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" 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 2011, seven full Board meetings have been held to approve, inter alia, interim and final results, acquisition of Present Sino Group, acquisition of Fast Base Group, and issue of RMB70 million zero coupon unsecured convertible bonds and issue of unlisted warrants. 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)*	10/10	1/1	—
Mr. Yang Zhuoya	9/10	—	—
Independent Non-executive Directors			
Mr. Lam Ming Yung	8/10	—	2/2
Mr. Zhang Shaosheng	10/10	1/1	2/2
Mr. Wong Kin Tak	10/10	1/1	2/2

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

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

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

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 annual general meeting held on 29 December 2010 was close to the extraordinary general meeting held on 15 October 2010. Hence, Mr. Wong Kin Tak was retired and re-elected at the annual general meeting held on 29 December 2010.

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 2011.

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.

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

Remuneration Committee

A remuneration committee of the Company (the "Remuneration Committee") was established on 1 July 2005 with written terms of reference in compliance of the code provision in B.1 of the CG Code. The terms of reference of the Remuneration Committee are available from the Company Secretary at any time. The Remuneration Committee currently comprises an Executive Director, namely, Mr. Wu Shaoning and two Independent Non-executive Directors, namely Mr. Zhang Shaosheng and Mr. Wong 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 29 to the financial statements of this annual report.

The Remuneration Committee meets at least once a year. During the year, one Remuneration Committee meeting was held to 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 2011.

During the year ended 30 June 2011, 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 2011, 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 reappointment 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 2011, 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 Auditor for the year ended 30 June 2011 by shareholders at the annual general meeting held on 29 December 2010 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 2011 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 Auditor's Report".

An amount of HK$1,550,000 (2010: HK$1,250,000) was charged to the financial statements of the Company and subsidiaries for the year ended 30 June 2011 for CCIF's statutory audit. Except for the engagement of CCIF in June 2011 with a fee amounted to HK$750,000 as the reporting accountants in respect of the Company's acquisition of Present Sino Limited which is a very substantial acquisition and connected transaction under the Listing Rules, no other significant non-audit service was provided by CCIF for the Company during the two years ended 30 June 2010 and 2011.

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 2011, the Audit Committee assessed the internal control environment of the Group and reviewed the internal control procedural manual of the Group and concluded that the internal control systems are effective and efficient.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

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

INDEPENDENT AUDITOR'S REPORT

CCIF
CCIF CPA LIMITED
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 were engaged to audit the consolidated financial statements of China Agrotech Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 28 to 132, which comprise the consolidated and company statements of financial position as at 30 June 2011, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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.

Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

(1) Scope limitation — Biological assets

As detailed in note 41 to the consolidated financial statements , on 17 May 2011, an order was issued by the middle court of Taiyuan City, Shanxi (the "Court") for sealing up the Plantation Base as defined below for a period of two years from 18 May 2011 to 17 May 2013 pending trial by the Court. As a result of the sealing up, the Group is not able to transfer, sale, change register, pledge and other similar activities in respect of the Plantation Base. The total fair value less costs to sell of the biological assets associated with the Plantation Base amounted to approximately HK$832,042,000 as at 30 June 2011. In the absence of available information evidencing the financial effects of the seal up order, the current valuation of the aforesaid biological assets is prepared based on an assumption, among others, that these biological assets can be freely disposed of and transferred free of all encumbrances. Due to the lack of sufficient appropriate evidence for the above-mentioned, we are not able to satisfy ourselves as to whether the basis of measurement are appropriate and the value of the aforesaid biological assets is fairly stated in the consolidated statement of financial position of the Group as at 30 June 2011.

(2) Scope limitation — Financial guarantees undertaken by the Group

During the course of our audit, certain information showing that the Group has outstanding contingent liabilities arising from guarantees provided to banks for liabilities of third parties to a total extent of HK$132,136,000 as at 30 June 2011 has been obtained.

In the opinion of the directors of the Company, due to the absence of adequate information, they are unable to confirm whether these financial guarantees are related to the Group. Consequently, the financial effects of these guarantees have not been measured and accounted for in the consolidated financial statements for the current year.

We were not able to carry out alternative audit procedures to satisfy ourselves as to the matters set out above.

Any adjustment that might have been found to be necessary in respect of the matters set out in the paragraphs above would have a significant consequential effect on the financial position of the Group and of the Company as at 30 June 2011 and the profit and cash flows of the Group for the year then ended and the related disclosures in the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER — MATERIAL UNCERTAINTY RELATING TO POSSIBLE OUTCOME OF OUTSTANDING LITIGATION

Without further qualifying our opinion, we draw attention to note 41 to the consolidated financial statements concerning the uncertainty relating to the possible outcome of a lawsuit initiated on 16 May 2011 by a seller (the "Plaintiff") of certain Lacebark Pine plantation base in Shanxi Province (the "Plantation Base") against a new wholly-owned subsidiary acquired by the Group on 1 November 2010 (the "Defendant") alleging that (i) in entering three sales and purchases contracts of the Plantation Base the Defendant had induced the Plaintiff to sell at extremely low prices that were collectively far below the consideration the Company paid for the acquisition of the Defendant, and (ii) the underlying consideration was not fully paid for. The Plaintiff requested the Court to cancel the sales and purchases contracts and return the Plantation Base to the Plaintiff.

As the case is in the early stage of its proceeding, there is a material uncertainty in respect of the outcome of the final judgement and the financial impact on the financial position of the Group.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 30 September 2011

Betty P.C. Tse
Practising Certificate Number P03024

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2011
(Expressed in Hong Kong dollars)

	Note	2011 HK$'000	2010 HK$'000
Turnover	*4*	**4,242,804**	3,362,029
Cost of sales		**(3,981,200)**	(3,183,660)
Gross profit		**261,604**	178,369
Other revenue and other net income	*5*	**35,695**	39,619
Loss arising from change in fair value less costs to sell of biological assets	*16*	**(34,679)**	—
Gain from bargain purchase on acquisition of subsidiaries	*35(a)&(b)*	**217,285**	—
Gain from change in fair value of derivative financial liabilities	*31*	**40,817**	—
Distribution costs		**(52,975)**	(48,764)
Administrative expenses		**(107,019)**	(73,374)
Impairment loss on trade receivables	*23(a)*	**(13,075)**	(4,161)
Write down of inventories	*22(b)*	**—**	(5,847)
Loss on disposal of subsidiaries	*35(e)&(f)*	**(5,143)**	(8,474)
Loss on disposal of biological assets	*16(iv)*	**(121,569)**	—
Profit from operations		**220,941**	77,368
Finance costs	*6(a)*	**(84,369)**	(30,093)
Profit before taxation	*6*	**136,572**	47,275
Income tax	*7(a)*	**(6,317)**	(16,394)
Profit for the year		**130,255**	30,881
Attributable to:			
Owners of the Company	*34(a)*	**126,558**	29,793
Non-controlling interests	*34(a)*	**3,697**	1,088
Profit for the year	*34(a)*	**130,255**	30,881
Earnings per share	*11*		
Basic		**HK18.49 cents**	HK4.98 cents
Diluted		**HK18.46 cents**	HK4.92 cents

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011
(Expressed in Hong Kong dollars)

	Note	2011 HK$'000	2010 HK$'000
Profit for the year		**130,255**	30,881
Other comprehensive income for the year			
Exchange differences on translation of financial statements of subsidiaries in PRC	*34(a)*	87,933	2,670
Reclassification adjustment for exchange difference relating to disposal of subsidiaries in PRC	*34(a)*	(798)	(157)
		87,135	2,513
Income tax relating to components of other comprehensive income		—	—
Other comprehensive income for the year, net of tax		**87,135**	2,513
Total comprehensive income for the year		**217,390**	33,394
Attributable to:			
Owners of the Company		213,611	32,306
Non-controlling interests		3,779	1,088
		217,390	33,394

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011
(Expressed in Hong Kong dollars)

	Note	2011 HK$'000	2011 HK$'000	2010 HK$'000	2010 HK$'000
Non-current assets					
Property, plant and equipment	*13*		135,662		109,150
Investment properties	*14*		—		—
Lease premiums for land	*15*		11,476		3,253
Biological assets	*16*		883,536		—
Intangible assets	*17*		68,481		21,404
Goodwill	*18*		98,330		81,341
Available-for-sale financial assets	*19*		27,348		26,801
Other deposit	*20*		14,447		13,657
			1,239,280		255,606
Current assets					
Lease premiums for land	*15*	272		96	
Inventories	*22*	100,520		94,131	
Trade and other receivables	*23*	2,855,266		2,037,036	
Trading securities	*24*	4,147		1,292	
Restricted bank deposits	*25*	609,787		340,881	
Cash and cash equivalents	*26*	178,514		95,234	
		3,748,506		2,568,670	
Current liabilities					
Trade and other payables	*27*	2,004,660		1,316,047	
Bank loans	*28*	674,977		539,009	
Tax payable	*30(a)*	51,379		47,995	
Derivative financial liabilities	*31*	50,462		—	
Convertible bonds	*32*	30,623		896	
		(2,812,101)		(1,903,947)	
Net current assets			936,405		664,723
Total assets less current liabilities			2,175,685		920,329
Non-current liabilities					
Bank loans	*28*		14,447		5,918
Convertible bonds	*32*		544,244		28,963
Deferred tax liabilities	*30(b)*		13,702		—
Promissory notes	*33*		182,016		—
			(754,409)		(34,881)
NET ASSETS			1,421,276		885,448

At 30 June 2011
(Expressed in Hong Kong dollars)

	Note	2011 HK$'000	2010 HK$'000
CAPITAL AND RESERVES	*34(a)*		
Share capital		77,977	64,277
Share premium and reserves		1,320,078	800,320
Total equity attributable to owners of the Company	*34(a)*	1,398,055	864,597
Non-controlling interests	*34(a)*	23,221	20,851
TOTAL EQUITY	*34(a)*	1,421,276	885,448

Approved and authorised for issue by the board of directors on 30 September 2011.

WU SHAONING
Director

YANG ZHUOYA
Director

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 30 June 2011
(Expressed in Hong Kong dollars)

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Interests in subsidiaries	*21*	**1,393,332**	302,159
Current assets			
Other receivables	*23*	**73**	92
Cash and cash equivalents	*26*	**21**	12
		94	104
Current liabilities			
Other payables	*27*	**1,796**	1,411
Derivative financial liabilities	*31*	**50,462**	—
Convertible bonds	*32*	**30,623**	896
		(82,881)	(2,307)
Net current liabilities		**(82,787)**	(2,203)
Total assets less current liabilities		**1,310,545**	299,956
Non-current liabilities			
Convertible bonds	*32*	**544,244**	28,963
Promissory notes	*33*	**182,016**	—
		(726,260)	(28,963)
NET ASSETS		**584,285**	270,993
CAPITAL AND RESERVES	*34(b)*		
Share capital		**77,977**	64,277
Share premium and reserves		**506,308**	206,716
TOTAL EQUITY		**584,285**	270,993

Approved and authorised for issue by the board of directors on 30 September 2011.

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 2011
(Expressed in Hong Kong dollars)

		Attributable to owners of the Company											
	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Convertible bond 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
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 in PRC		—	—	—	2,608	—	—	62	—	—	2,670	—	2,670
Disposals of subsidiaries	*35(f)*	—	—	—	(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	*34(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 unlisted warrant		—	—	—	—	—	—	—	(731)	731	—	—	—
Issue of shares upon exercise of unlisted warrants	*34(c)*	5,890	54,725	—	—	—	—	—	(1,715)	—	58,900	—	58,900
Disposal of subsidiaries	*35(f)*	—	—	—	—	—	—	—	—	—	—	(724)	(724)
Issue of shares upon exercise of share options	*34(c)*	110	729	—	—	—	(115)	—	—	—	724	—	724
Capital injected by non-controlling interests		—	—	—	—	—	—	—	—	—	—	228	228
Issue of shares upon conversion of convertible bonds	*34(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*

For the year ended 30 June 2011
(Expressed in Hong Kong dollars)

		Attributable to owners of the Company											
	Note	**Share capital** HK$'000	**Share premium** HK$'000	**Capital reserve** HK$'000	**Exchange reserve** HK$'000	**Convertible bond 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
At 1 July 2010		64,277	236,614	1,188	84,759	1,374	7,925	60,221	—	408,239	864,597	20,851	885,448
Profit for the year		—	—	—	—	—	—	—	—	126,558	126,558	3,697	130,255
Exchange difference on translation of the financial statements of subsidiaries in PRC		—	—	—	87,927	—	—	(76)	—	—	87,851	82	87,933
Disposals of subsidiaries	*35(e)*	—	—	—	(798)	—	—	—	—	—	(798)	—	(798)
Total other comprehensive income		—	—	—	87,129	—	—	(76)	—	—	87,053	82	87,135
Total comprehensive income for the year		—	—	—	87,129	—	—	(76)	—	126,558	213,611	3,779	217,390
Transactions with owners													
Issue of unlisted warrants	*34(d)(vi)*	—	—	—	—	—	—	—	1,800	—	1,800	—	1,800
Issue of convertible bonds		—	—	—	—	215,657	—	—	—	—	215,657	—	215,657
Transfers		—	—	—	—	—	—	1,792	—	(1,792)	—	—	—
Disposal of subsidiaries	*35(e)*	—	—	—	—	—	—	—	—	—	—	(1,409)	(1,409)
Issue of shares upon conversion of convertible bonds	*34(c)*	13,700	125,621	—	—	(36,931)	—	—	—	—	102,390	—	102,390
Total transactions with owners		13,700	125,621	—	—	178,726	—	1,792	1,800	(1,792)	319,847	(1,409)	318,438
At 30 June 2011		**77,977**	**362,235**	**1,188**	**171,888**	**180,100**	**7,925**	**61,937**	**1,800**	**533,005**	**1,398,055**	**23,221**	**1,421,276**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2011
(Expressed in Hong Kong dollars)

	Note	2011 HK$'000	2010 HK$'000
Operating activities			
Profit before taxation		136,572	47,275
Adjustments for:			
Interest charged on convertible bonds	6(a)	28,520	1,555
Interest charged on promissory notes	6(a)	7,473	—
Gain on disposal of trading securities	5	(190)	(120)
Depreciation on owned fixed assets	13	11,568	7,549
Gain on disposal of investment property		—	(2,433)
Amortisation of lease premiums for land	15	203	258
Amortisation of intangible assets	17	8,741	8,067
(Reversal)/Write down of inventories	22(b)	(5,847)	5,847
Impairment losses on trade receivables	23(a)(ii)	13,075	4,161
Loss on disposal of property, plant and equipment	13	431	324
Loss on disposal of biological assets	16	121,569	—
Reversal of impairment losses of trade debtors and bills receivables	23(a)(ii)	(4,161)	(8,855)
Foreign exchange losses		—	8,504
Finance costs	6(a)	48,376	28,538
Interest income from bank deposits	5	(7,663)	(6,971)
Loss on disposals of subsidiaries	35(e)&(f)	5,143	8,474
Other interest income	5	(10,456)	(10,887)
Equity-settled share-based payment		—	8,040
Change in fair value of derivative financial liabilities	31	(40,817)	—
Change in fair value less costs to sell of biological assets	16	34,679	—
Gain from bargain purchase on acquisition of subsidiaries	35(a)&(b)	(217,285)	—
Operating profit before changes in working capital		129,931	99,326
Decrease in inventories		8,667	41,275
Increase in trade and other receivables		(511,004)	(362,125)
Decrease/(increase) in trade and other payables		547,699	(140,680)
Cash generated from/(used in) operations		175,293	(362,204)
PRC enterprise tax paid		(3,666)	(5,535)
Net cash generated from/(used in) operating activities		171,627	(367,739)
Investing activities			
Interest received		18,119	17,858
Payment for the purchase of property, plant and equipment		(10,478)	(11,882)
Purchase of trading securities		(5,774)	(564)
Capital expenditure in biological assets		(48,371)	—
Decrease in biological assets due to harvest		67,963	—
Proceeds from disposal of biological assets		23,568	—
Increase in restricted bank deposits		(243,880)	(35,175)
Proceeds from disposal of investment property		—	22,990
Refund of deposit for acquisition of mine	20	—	13,612
Proceeds from disposal of trading securities		3,219	2,376
Net cash outflow for acquisition of subsidiaries	35(a), (b) & (d)	(9,274)	(6,062)
Payment for purchase of business operation	35(c)	(18,855)	—
Payment for available-for-sale financial assets		(500)	(25,378)
Proceeds from disposal of available-for-sale financial assets		1,423	—
Net cash inflow from disposals of subsidiaries	35(e)&(f)	1,898	8,760
Net cash used in investing activities		(220,942)	(13,465)

CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

For the year ended 30 June 2011
(Expressed in Hong Kong dollars)

	Note	**2011 HK$'000**	2010 HK$'000
Financing activities			
Advance from a director	*39(e)*	**18,654**	6,040
Repayment to a director	*39(e)*	**(20,344)**	(16,120)
Proceeds from new bank loans		**966,318**	928,272
Proceeds from issue of convertible bonds		**82,180**	29,769
Proceeds from issue of unlisted warrants		**1,800**	—
Interest paid for convertible bonds		**(896)**	(2)
Proceeds from placing of shares		**—**	75,980
Proceeds from issue of shares upon exercise of unlisted warrants		**—**	58,900
Repayment of bank loans		**(862,490)**	(690,810)
Interest expenses paid	*6(a)*	**(48,376)**	(28,538)
Net cash generated from financing activities		**136,846**	363,491
Net increase/(decrease) in cash and cash equivalents		**87,531**	(17,713)
Cash and cash equivalents at 1 July		**95,234**	112,621
Effect of foreign exchange rate changes		**(4,251)**	326
Cash and cash equivalents at 30 June		**178,514**	95,234
Represented by:			
Cash and bank balances		**178,514**	95,234

The accompanying notes form part of these financial statements.

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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Room 2706, 27th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong respectively.

The consolidated financial statements of the Company for the year ended 30 June 2011 comprise the Company and its subsidiaries (together "the Group"). The Company acts as an investment holding company. The subsidiaries are principally engaged in the following activities:

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

(b) the manufacture and sale of pesticides and fertilizers;

(c) the provision of plant protection technical services;

(d) the trading of non-agricultural resources products; and

(e) the nursing, planting and sale of landscaping seedlings.

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 (the "Listing Rules"). 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 current accounting period of the Group and the Company. Note 3 provides information on 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 2011 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 and liabilities are carried at their fair value as explained in the accounting policies set out below.

— investment property (see note 2(h))

— biological assets (see note 2(j))

— derivative financial instruments (see note 2(o))

— financial instruments classified as available-for-sale or trading securities (see note 2(p))

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying 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 a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 42.

(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 presently are exercisable are taken into account.

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, 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. For each business combination, the Group can elect to measure any non-controlling interest either at fair value or at its proportionate share of the subsidiary's net identifiable assets.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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. Total comprehensive income is attributed to the owners of the Company and to the non-controlling interests even if this result in the non-controlling interests having a deficit balance. Prior to 1 July 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses. Loan 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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 July 2010

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 July 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the considerations received and the adjustment to the non-controlling interests was recognised in profit or loss.

In the Company's statement of financial position, interests in subsidiaries are carried at cost less impairment losses (see note 2(u)).

(d) Jointly-controlled entities

A jointly-controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly-controlled entity is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(u)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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 discontinued 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 investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Group's statement of financial position, investment in a jointly-controlled entities are carried at cost less impairment losses (see note 2(u)).

(e) Business combinations

Business combinations on or after 1 July 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their acquisition-date fair values, except that:

- deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12, *Income Tax*;

- liabilities or assets relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 *Employee Benefits*;

- liabilities or equity instruments relating to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal Groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Business combinations *(Continued)*

Business combinations on or after 1 July 2010 *(Continued)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e., the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combinations prior to 1 July 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Business combinations *(Continued)*

Business combinations prior to 1 July 2010 *(Continued)*

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

(f) Property, plant and equipment

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

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

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.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment *(Continued)*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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.

(g) Construction-in-progress

Construction-in-progress is carried at cost less impairment losses (see note 2(u)). Cost comprises direct costs of construction incurred, including any attributable financing costs, during the period 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.

(h) Investment property

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

Investment properties are carried 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(i)), 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(i).

(i) 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Leased assets *(Continued)*

(i) Classification of assets leased to the Group

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

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

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

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset or, if lower, the present value of the minimum lease payments of such assets is included in non-current 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(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(u). 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(h)).

(j) Biological assets

Biological assets are living plants involved in the agricultural activities of the transformation of biological assets into agricultural produce for sales or into additional biological assets. Biological assets and agricultural produce are measured at fair value less costs to sell at initial recognition and at each reporting date. The fair value less costs to sell at the time of harvest is deemed as the cost of agricultural produce for further processing, if applicable. Direct expenditures related to plantation and maintenance of biological assets are capitalised. Costs to sell are the incremental costs directly attributable to the sell of biological asset.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Biological assets *(Continued)*

The fair value less costs to sell of biological assets is determined independently by professional valuers at the end of each reporting period. The gain or loss arising on initial recognition and subsequent changes in fair values less costs to sell of biological assets is recognised in profit or loss in the period in which it arises. Upon the sale of the agricultural produce, the carrying amount is transferred to cost of sales in the income statement.

(k) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is carried at cost less accumulated impairment losses. For the purposes of impairment testing, goodwill is allocated to each of the cash-generating unit, or groups of cash generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income/income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

(l) 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(w)). Capitalised development costs are carried at cost less accumulated amortisation and impairment losses (see note 2(u)). Other development expenditure and expenditure on internally generated goodwill are recognised as an expense in the period in which it is incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Intangible assets that are acquired by the Group are carried 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(u)).

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.

(m) Inventories

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

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

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

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

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter carried at amortised cost less allowance for impairment for doubtful debts (see note 2(u)), 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 carried at cost less allowance for impairment for doubtful debts (see note 2(u)).

(o) 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 qualify 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Other investments in debt and equity securities

The policies of accounting for investments in equity securities, other than investments in subsidiaries are as follows:

Investments in equity securities are initially carried at fair value, 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(v)(iii) and (v).

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

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(v)(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.

(q) 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.

(r) 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(y)(i), trade and other payables are subsequently carried at amortised cost unless the effect of discounting would be immaterial, in which case they are carried at cost.

(s) 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Convertible bonds

(i) 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.

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 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 bond 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 bond is redeemed, the capital reserve is released directly to retained profits.

(ii) Convertible bonds that contain a derivative component

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with the Group's accounting policy on derivative financial instruments. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. If the bond is converted, the carrying amount of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amount of both components is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) 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(u)(ii)) and other current and non-current receivables that are carried 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Impairment of assets *(Continued)*

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

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 carried 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 derecognised. 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.

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;

— biological assets;

— intangible assets;

— investments in subsidiaries; and

— goodwill.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Impairment of assets *(Continued)*

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

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

— Calculation of recoverable amount

The recoverable amount of an asset is the 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 the 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(u)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill and 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)*

(v) 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 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 and returns.

(ii) Provision of services

Revenue from the provision of plant protection technical services and agency 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.

(w) Borrowing costs

Borrowing costs that are 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 are capitalized as part of the cost of that asset. Other borrowing costs are expensed in profit or loss in the period in which they are incurred.

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)*

(x) 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 carried 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.

(y) 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 issue 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.

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(y)(iii) 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, that is, the amount initially recognised, less accumulated amortisation.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(y)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 2(y)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group 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 carried 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.

(z) 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 equity, in which case they are recognised in equity.

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

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 differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Income tax *(Continued)*

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the 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 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 Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

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

  — the same taxable entity; or

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

(aa) 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 carried at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. 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 the 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.

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e., partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

(ab) 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 senior executive management which is the Group's chief operation decision maker ("CODM"), 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, and 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)*

(ac) 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")

The Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") that are first effective for the current accounting period.

HKAS 32 (Amendment)	Classification of Rights Issues
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
HK-Int 5	Presentation of financial statements — classification by the borrower of a term loan that contains a repayment on demand clause

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

Hong Kong Interpretation 5, Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("HK (Int) 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK (Int) 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK (Int) 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK (Int) 5, term loans with a repayment on demand clause are classified as current liabilities.

The application of the amendments to HK(Int) 5 has had no impact on the reported profit or loss for the current and prior years.

4. TURNOVER

The principal activities of the Group are (i) trading of fertilizers, pesticides and other agricultural products; (ii) manufacturing and selling of pesticides and fertilizers; (iii) provision of plant protection technical services; (iv) trading of non-agricultural resources products; and (v) nursing, planting and sales of landscaping seedlings in Mainland China.

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:

	2011 **HK$'000**	2010 HK$'000
Trading of fertilizers, pesticides and other agricultural products	**2,943,426**	2,446,356
Manufacturing and selling of pesticides and fertilizers	**238,555**	121,032
Provision of plant protection technical services	**26,951**	13,693
Trading of non-agricultural resources products	**917,796**	780,948
Sales of landscaping seedlings	**116,076**	—
	4,242,804	3,362,029

5. OTHER REVENUE AND OTHER NET INCOME

	2011 HK$'000	2010 HK$'000
Other revenue		
Agency fee income	4,889	577
Government grants*	4,804	4,518
Sundry income	557	429
Interest income from bank deposits	7,663	6,971
Other interest income	10,456	10,887
Total interest income on financial assets not at fair value through profit or loss	18,119	17,858
	28,369	23,382
Other net income		
Gain on disposal of investment property	—	2,433
Gain on disposal of trading securities	190	120
Net foreign exchange gain	2,975	4,829
Reversal of impairment loss of trade receivables	4,161	8,855
	7,326	16,237
	35,695	39,619

* It represented subsidies granted to the Group from local governments of the People's Republic of China (the "PRC") for promoting the use of compound fertilizers and other agricultural resources products.

6. PROFIT BEFORE TAXATION

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

(a) Finance costs

	2011 HK$'000	2010 HK$'000
Interest on bank loans and other borrowings wholly repayable within five years	48,376	28,538
Interest on convertible bonds	28,520	1,555
Interest on promissory notes	7,473	—
Total interest expense on financial liabilities not at fair value through profit or loss	84,369	30,093

6. PROFIT BEFORE TAXATION *(Continued)*

(b) Staff costs (including directors' emoluments)

	2011 HK$'000	2010 HK$'000
Contributions to defined contribution retirement plans	2,124	1,603
Equity-settled share-based payment expenses	—	8,040
Salaries, wages and other benefits	31,822	23,943
	33,946	33,586

(c) Other items

	Note	2011 HK$'000	2010 HK$'000
Depreciation#	*13*	11,568	7,549
Amortisation#			
— lease premiums for land	*15*	203	258
— intangible assets	*17*	8,741	8,067
Cost of inventories#	*22(b)*	3,981,200	3,183,660
(Reversal)/Write down of inventories	*22(b)*	(5,847)	5,847
Impairment loss on			
— trade receivables	*23(a)(ii)*	13,075	4,161
Auditor's remuneration			
— audit services		1,550	1,250
— other services		644	208
Loss on disposal of subsidiaries	*35(e)&(f)*	5,143	8,474
Loss on disposal of property, plant and equipment		431	324
Loss on disposal of biological assets	*16(iv)*	121,569	—
Operating lease charges: minimum lease payments for land and buildings#		7,254	4,306

Cost of inventories includes approximately HK$10,471,000 (2010: HK$9,244,000) relating to staff costs, depreciation, amortisation expenses and operating leases charges, which amount is also included in the respective total amount disclosed separately above.

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	Note	2011 HK$'000	2010 HK$'000
Current tax:			
Hong Kong Profits Tax		—	—
PRC Enterprise Income Tax		12,556	13,957
(Over)/under provision in respect of prior years:			
PRC enterprise income tax		(5,333)	2,437
Deferred tax:			
Credit to profit or loss	*30(b)*	(906)	—
Total		6,317	16,394

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 2011 and 2010.

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 on dividend 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 PRC subsidiaries for the period from 1 January 2008 to 30 June 2011 will not be distributed in the foreseeable future.

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

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

	2011 **HK$'000**	2010 HK$'000
Profit before taxation	**136,572**	47,275
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**34,756**	11,819
Tax effect of non-deductible expenses	**45,193**	12,397
Tax effect of non-taxable income	**(71,733)**	(15,648)
Tax effect of unused tax losses not recognised	**4,357**	6,109
(Over)/under provision in respect of prior years	**(5,333)**	2,437
Tax effect of utilisation of tax losses not previously recognised	**(17)**	(720)
Tax effect on reversal of deferred tax liability	**(906)**	—
Actual tax expense	**6,317**	16,394

8. DIRECTORS' EMOLUMENTS

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

Year ended 30 June 2011

Name of director	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	—	1,280	12	1,292
Mr. Yang Zhuoya	—	360	12	372
Independent non-executive directors				
Mr. Lam Ming Yung	60	—	—	60
Mr. Zhang Shaosheng	60	—	—	60
Mr. Wong Kin Tak	120	—	—	120
	240	1,640	24	1,904

8. DIRECTORS' EMOLUMENTS *(Continued)*

Year ended 30 June 2010

Name of director	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

For the years ended 30 June 2011 and 2010, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived or agreed to waive any remuneration for the years ended 30 June 2011 and 2010.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2010: two) are directors of the company whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2010: three) individuals are as follows:

	2011 HK$'000	2010 HK$'000
Salaries and other emoluments	**1,829**	1,310
Share-based payments	**—**	1,642
Retirement scheme contributions	**36**	36
	1,865	2,988

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

The emoluments of the three (2010: three) individuals with the highest emoluments are within the following bands:

	2011 Number of individuals	2010 Number of individuals
Nil–HK$1,000,000	3	1
HK$1,000,001–HK$1,500,000	—	2

For the years ended 30 June 2011 and 2010, no emoluments 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$6,555,000 (2010: loss of HK$13,117,000) 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:

	2011 HK$'000	2010 HK$'000
Earnings for the purpose of basic and diluted earnings per share	126,558	29,793

Weighted average number of ordinary shares

	Number of shares	
	2011 '000	2010 '000
Weighted average number of ordinary shares used in calculating basic earnings per share	684,478	597,735
Effect of dilutive potential shares arising from — share options	1,217	7,625
Weighted average number of ordinary shares used in calculating diluted earnings per share	685,695	605,360

Convertible bonds and unlisted warrants had anti-dilutive effects on the basic earnings per share for the year ended 30 June 2010 and 2011.

12. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports which provides information about components of the Group. The information is reported to and reviewed by the CODM for the purpose of resource allocation and performance assessment.

The CODM considers the business from both geographic and nature of operation perspectives. Geographically, the CODM considers the performance of the segments in PRC. From the nature of operation perspective, the Group has presented the following five reportable segments. These segments are managed separately and each of them offers products and services different from other segments.

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

— Manufacturing operation: the manufacture and sale of pesticides and fertilizers.

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

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

— Seedling operation: the nursing, planting and sale of landscaping seedlings.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the CODM 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(ab). Segment profit/(loss) represents the profit earned/(loss) of 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/(credited) is not allocated to reportable segments.

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade and other payables and bank loans managed directly by the segments.

Revenue and expenses are allocated to each segment with reference to their respective sales and expenses 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) Segments results, assets and liabilities *(Continued)*

(i) For the year ended 30 June 2011

	Agricultural resources products			Non-agricultural resources products	Landscaping	
	Trading operation HK$'000	Manufacturing operation HK$'000	Consultancy operation HK$'000	trading operation HK$'000	Seedling operation HK$'000	Total HK$'000
Revenue from external customers	2,943,426	238,555	26,951	917,796	116,076	4,242,804
Inter-segment revenue	31,205	21,447	—	29,354	—	82,006
Reportable segment revenue	2,974,631	260,002	26,951	947,150	116,076	4,324,810
Reportable segment profit/(loss) before taxation	37,944	(2,799)	23,328	(1,267)	(124,612)	(67,406)
Interest income	16,908	101	13	1,088	9	18,119
Finance cost	36,708	3,532	—	8,136	—	48,376
Depreciation and amortisation	1,587	17,857	2	357	709	20,512
Impairment loss on						
— trade receivables	7,085	903	—	5,087	—	13,075
Reportable segment assets	2,824,204	374,874	10,021	630,750	1,113,814	4,953,663
Additions to non-current assets	623	84,343	14	153	1,211,725	1,296,858
Reportable segment liabilities	2,084,154	158,981	90	487,295	18,628	2,749,148

12. SEGMENT REPORTING *(Continued)*

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

(ii) For the year ended 30 June 2010

	Agricultural resources products			Non-agricultural resources products trading	
	Trading operation HK$'000	Manufacturing operation HK$'000	Consultancy operation HK$'000	operation HK$'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 amortization	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)*

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

		2011 HK$'000	2010 HK$'000
(i)	**Revenue**		
	Total reportable segments' revenues	4,324,810	3,439,519
	Elimination of inter-segment revenue	(82,006)	(77,490)
	Consolidated turnover	4,242,804	3,362,029
(ii)	**Profit**		
	Reportable segment profit/(loss)	(67,406)	63,455
	Gain on disposal of investment property	—	2,433
	Gain from bargain purchases on acquisition of subsidiaries	217,285	—
	Gain from change in fair value of derivative financial liabilities	40,817	—
	Unallocated Finance costs	(35,993)	(1,555)
	Unallocated Interest income	—	—
	Unallocated corporate expenses	(18,131)	(17,058)
	Consolidated profit before taxation	136,572	47,275
(iii)	**Assets**		
	Reportable segment assets	4,953,663	2,793,736
	Unallocated corporate assets	34,123	30,540
	Consolidated total assets	4,987,786	2,824,276
(iv)	**Liabilities**		
	Reportable segment liabilities	2,749,148	1,890,362
	Unallocated corporate liabilities	817,362	48,466
	Consolidated total liabilities	3,566,510	1,938,828

12. SEGMENT REPORTING *(Continued)*

(c) Revenue from major product and services

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

	2011 HK$'000	2010 HK$'000
Sales of agricultural resources and provision of related services		
Nitrogenous fertilizer	347,406	320,887
Phosphorous fertilizer	563,920	452,167
Potash fertilizer	656,126	507,764
Compound fertilizer	1,167,528	825,698
Pesticides	473,952	474,565
Agricultural resources products	3,208,932	2,581,081
Trading of non-agricultural resources products	917,796	780,948
Sale of landscaping seedlings	116,076	—
Total	4,242,804	3,362,029

(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 mainly include property, plant and equipment, biological assets 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	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Hong Kong (Place of domicile)	—	—	—	—
Mainland China	4,242,804	3,362,029	1,224,833	241,949
	4,242,804	3,362,029	1,224,833	241,949

(e) Information about major customers

No analysis of the Group's turnover and contribution from operations by major customers has been presented as there are no transactions with a single external customer equal to or greater than 10 per cent of the Group's total revenue.

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 2009	69,582	85,022	—	5,565	8,602	168,771
Exchange realignment	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 and 1 July 2010	86,622	42,278	2,927	5,517	10,635	147,979
Exchange realignment	5,355	2,599	167	287	673	9,081
Transfer	—	326	(326)	—	—	—
Additions	4,363	2,504	293	400	2,918	10,478
Acquisition of subsidiaries	15,583	4,570	—	628	941	21,722
Disposals	(24)	(390)	—	(350)	(958)	(1,722)
Disposals of subsidiaries	—	—	—	(212)	(698)	(910)
At 30 June 2011	**111,899**	**51,887**	**3,061**	**6,270**	**13,511**	**186,628**
Accumulated depreciation and impairment:						
At 1 July 2009	3,236	74,774	—	3,453	4,632	86,095
Exchange realignment	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 and 1 July 2010	4,937	24,298	—	3,608	5,986	38,829
Exchange realignment	420	1,434	—	179	376	2,409
Charge for the year	6,397	2,477	—	861	1,833	11,568
Write back on disposals	(5)	(374)	—	(251)	(661)	(1,291)
Disposals of subsidiaries	—	—	—	(179)	(370)	(549)
At 30 June 2011	**11,749**	**27,835**	**—**	**4,218**	**7,164**	**50,966**
Carrying amount:						
At 30 June 2011	**100,150**	**24,052**	**3,061**	**2,052**	**6,347**	**135,662**
At 30 June 2010	81,685	17,980	2,927	1,909	4,649	109,150

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

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

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

(c) At 30 June 2011, certain of the Group's plant and machinery with a carrying amount of approximately HK$1,694,000 (2010: HK$2,692,000) were pledged to secure the Group's bills payable.

(d) At 30 June 2011, certain of the Group's buildings with a carrying amount of approximately HK$51,396,000 (2010: Nil) were, together with those prepaid lease payments disclosed in note 15(b), pledged to secure the Group's bank loans amounting to approximately HK$42,138,000 (2010: Nil).

14. INVESTMENT PROPERTIES

	The Group	
	2011	2010
	HK$'000	HK$'000
At valuation		
At 1 July	—	20,557
Disposal	—	(20,557)
At 30 June	—	—

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

(b) All investment properties had not been leased out during the year ended 30 June 2010.

(c) 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	
	2011	2010
	HK$'000	HK$'000
Carrying amount at 1 July	**3,349**	8,778
Acquisition of subsidiaries	**8,058**	—
Exchange realignment	**544**	(14)
Amortisation	**(203)**	(258)
Disposal of subsidiaries	**—**	(5,157)
Carrying amount at 30 June	**11,748**	3,349
Analysed for reporting purposes as:		
Current portion	**272**	96
Non-current portion	**11,476**	3,253
	11,748	3,349

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

(b) At 30 June 2011, certain of the Group's prepaid lease payments amounting to approximately HK$8,230,000 (2010: Nil) were, together with those buildings disclosed in note 13(d), pledged to secure the Group's bank loans amounting to approximately HK$42,138,000 (2010: Nil).

16. BIOLOGICAL ASSETS

	The Group	
	2011	2010
	HK$'000	HK$'000
At 1 July	**—**	—
Acquisition through business combination (note 35(a))	**1,155,334**	—
Additions (note (i))	**48,371**	—
Harvested as agricultural produce (note (ii))	**(67,963)**	—
Loss arising from change in fair value less costs to sell of biological assets (note (iii))	**(34,679)**	—
Disposal of biological assets (note (iv))	**(251,194)**	—
Exchange alignment	**33,667**	—
At 30 June (note (v))	**883,536**	—

16. BIOLOGICAL ASSETS *(Continued)*

The analysis of fair value of biological assets by location is as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
Shanxi	**880,475**	—
Beijing	**3,061**	—
	883,536	—

Notes:

(i) The additions represent the considerations paid for the acquisitions of biological assets, the purchase cost of tree saplings and direct expenditures related to plantation and maintenance incurred during the year. The consideration of individual acquisition is agreed on a negotiation basis.

(ii) The quantity and amount of agricultural produce harvested, measured at fair value less costs to sell during the year were as follows:

Species	**2011** Approximate number of plants '000	**2011** Amount HK$'000	2010 Approximate number of plants '000	2010 Amount HK$'000
Lacebark pine				
— nutrient-bag seedlings (Below 30cm height)	**5,746**	**26,538**	—	—
— small seedlings (30cm — 2m height)	**108**	**7,664**	—	—
— large seedlings (Above 3.5m height)	**1**	**3,535**	—	—
Acer truncatum bunge	**278**	**3,026**		
Other seedlings of flowers and shrubs	**21,599**	**27,200**	—	—
	27,732	**67,963**	—	—

(iii) Changes in fair value less costs to sell include changes upon initial acquisition of the biological assets and changes during the year.

The changes in fair value less costs to sell upon initial acquisition of the biological assets represent the difference between the acquisition cost and the fair value of the underlying biological assets at the date of acquisition.

The changes in fair value less costs to sell during the year represent the aggregate of the differences between the value of existing biological assets as at the beginning and the end of the financial year and the difference between the value of new biological assets as of the second day of acquisition and the end of the financial year. Since most of the biological assets of the Group had little biological transformation during the year and their market prices were relatively stable, the loss arising from change in fair value less costs to sell of the biological assets was mainly resulted from direct expenditures related to plantation and maintenance capitalised during the year.

16. BIOLOGICAL ASSETS *(Continued)*

Note: (Continued)

(iv) In view of the Group's strategic planning of diversifying its seedling product mix and anticipated high plantation maintenance expenditure for certain immature biological assets, mainly small seedlings of Lacebark Pine situated at highland areas in a plantation base, the management expected that the future costs to maintain these biological assets will outweigh the economic benefits to be derived therefrom. Hence, the Group disposed of these biological assets in this plantation base, with a total carrying amount of approximately HK$251,194,000 (equivalent to RMB213,164,000), prior to harvest stage in bulk to an independent third party at a consideration of HK$129,625,000 (equivalent to RMB110,000,000) and resulted in a loss of approximately HK$121,569,000 (equivalent to RMB103,164,000).

The Directors of the Company is of the opinion that this transaction is material and therefore disclose the underlying loss as a separate line item in the consolidated income statement.

(v) The quantity and amount of biological assets measured at fair value less costs to sell at the end of each reporting period were as follows:

	2011		2010	
Species	**Approximate number of plants '000**	**Amount HK$'000**	Approximate number of plants '000	Amount HK$'000
Lacebark pine				
— nutrient-bag seedlings (Below 30cm height)	**288**	**1,736**	—	—
— small seedlings (30cm — 2m height)	**344**	**22,806**	—	—
— large seedlings (Above 3.5m height)	**217**	**783,594**	—	—
Platycladus orientalis (6cm diameter)	**18**	**26,069**	—	—
Zizyphas jujube (7cm diameter)	**36**	**36,320**	—	—
Acer truncatum bunge	**393**	**2,341**		
Other seedlings of flowers and shrubs	**3,837**	**10,670**	—	—
	5,133	**883,536**	—	—

The Group's significant biological assets represent tree species of the stock including Lacebark Pine, Platycladus orientalis, Zizyphus jujube and Acer truncatum bunge located at Shanxi Province and Beijing of the PRC (the "Tree Species"). The Tree Species are used for ornamental plant and also for greenery purposes. The major customers of these species include landscaping companies, construction companies and government departments. As at 30 June 2011, the total area on which these Tree Species stand is approximately 6,275 Chinese Mu.

The Group's biological assets in the PRC were independently valued by LCH (Asia-Pacific) Surveyors Limited (the "Valuer").

In valuing the Tree Species, the Valuer has considered three different valuation approaches with reference to the biological assets as well as the applicable accounting standard, and found that the market-based comparable sales approach is the most appropriate approach to value. This method uses the present market value in terms of price per tree as basis for coming up with the estimated value. The underlying theory of this approach is existing market price which are dependable parameters since it reflects the amount a buyer is willing to pay and the amount a seller is willing to give up.

16. BIOLOGICAL ASSETS *(Continued)*

Note: (Continued)

(v) *(Continued)*

The principal valuation methodology and assumptions adopted are as follows:

- That the end products or the market being assessed are for trees;
- The total number of each tree species considered in the valuation is based on the survey report prepared by a governmental body which is responsible for policy planning, management and monitoring, research and development, survey and inspection, investigation and patrol of the local forestry resources, wood production and trading activities in Shanxi Province. Officials with national professional qualifications perform site survey and inspection covering the forestry and woodland areas of Shanxi Province;
- The prices for each tree species are homogenous and the average price for each species was used as valuation basis, with factoring in the condition of the tree species such as their species, age, height and breast width;
- The Tree Species are valued on the market value basis on the assumption of ready for sale and as part of a going-concern business;
- No allowance has been made in the valuation for any charges, mortgages, outstanding premium or amounts owing on the Tree Species;
- No allowance has been made in the valuation for any expenses or depreciation or taxation, which may be incurred in effecting a sale of the Tree Species; and
- The seal up order of the biological assets (as detailed in note vi below) is temporary and its effect should be immaterial to affect the actual value of the biological assets as of the end of the reporting period.

In valuing several species planted or purchased recently prior to the reporting date, due to little biological transformation has taken place from the time planted or purchased to the reporting date and the impact of the biological transformation on the price of the saplings is not material based on the planned rotation of the tree, the Valuer considered their costs approximate their fair value and has adopted the cost approach. In using the cost approach, the Valuer has adopted the costs incurred as at the reporting date as well as unit costs since the independent research indicates that the unit costs are within reasonable range for the different ages of Tree Species (seeding bags, younglings and saplings) being planted, purchased, terrain and locality. Costs included in the valuation comprise sapling cost, land rental, management cost, planting cost and fertilizer cost. As at 30 June 2011, the value of respective Tree Species is approximately HK$6,549,000.

(vi) As detailed in note 41, a Plantation Base on which a majority of the Tree Species stand have been sealed up on 17 May 2011 pursuant to the seal up order issued by the middle court of Taiyuan City, Shanxi. The aforesaid order prohibits the Group from transferring, selling, changing of register, put on pledge, and similar activities in respect of the Plantation Base, pending trial by the Court.

The total area of the Plantation Base is approximately 4,457 Chinese Mu, with approximately 555,000 Lacebark Pine and 18,000 Platycladus orientalis planted in various heights. The total carrying amount, which is the fair value using the market approach assuming the seal up order is temporary and its effect to the fair value is immaterial, is approximately HK$832,042,000.

17. 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 2009	52,292	51,210	105,490	208,992
Exchange realignment	—	170	198	368
Eliminated on disposal of subsidiaries	—	—	(17,603)	(17,603)
At 30 June 2010 and 1 July 2010	52,292	51,380	88,085	191,757
Exchange realignment	3,089	2,975	6,974	13,038
Acquisition of subsidiaries	—	—	52,895	52,895
At 30 June 2011	**55,381**	**54,355**	**147,954**	**257,690**
Accumulated amortisation and impairment:				
At 1 July 2009	52,292	26,810	96,973	176,075
Exchange realignment	—	122	234	356
Charge for the year	—	4,000	4,067	8,067
Eliminated on disposal of subsidiaries	—	—	(14,145)	(14,145)
At 30 June 2010 and 1 July 2010	52,292	30,932	87,129	170,353
Exchange realignment	3,089	1,882	5,144	10,115
Charge for the year	—	4,177	4,564	8,741
At 30 June 2011	**55,381**	**36,991**	**96,837**	**189,209**
Carrying amount:				
At 30 June 2011	**—**	**17,364**	**51,117**	**68,481**
At 30 June 2010	—	20,448	956	21,404

17. INTANGIBLE ASSETS *(Continued)*

(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 cost of formulae acquired for manufacturing pesticides and fertilizers. They all have finite useful lives of 10 to 20 years.

(b) At 30 June 2011, the Company performed impairment test for product development costs and technical know-how. The test used cash flow projections based on financial estimates covering a five-year period, expected sales to be derived from the intangible assets and discount rates of 15% and 18% (2010: 12.1%). The cash flows beyond the five-year period are extrapolated using a steady growth rate from -10% to 0% (2010: 5% to 25%). 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 exceeds their carrying amount and accordingly no impairment loss is recognised for the year (2010: HK$Nil).

The recoverable amount of technical know-how exceeds their carrying amount and accordingly no impairment loss is recognised for the year (2010: HK$Nil).

(c) Amortisation charges for the year of approximately HK$1,392,000 (2010: HK$1,133,000) and HK$7,349,000 (2010: HK$6,934,000) were included in the cost of sales and administrative expenses respectively in the consolidated income statement.

18. GOODWILL

	Group HK$'000
Cost:	
At 1 July 2009	109,697
Exchange realignment	477
Eliminated on disposal of subsidiaries	(4,882)
At 30 June 2010 and 1 July 2010	105,292
Arising from acquisition of a trading operation (note 35 (c))	18,855
Exchange realignment	6,409
Eliminated on disposal of subsidiaries	(6,923)
At 30 June 2011	123,633
Accumulated amortisation and impairment:	
At 1 July 2009	23,816
Exchange realignment	135
At 30 June 2010 and 1 July 2010	23,951
Exchange realignment	1,352
At 30 June 2011	25,303
Carrying amount:	
At 30 June 2011	98,330
At 30 June 2010	81,341

18. GOODWILL *(Continued)*

Impairment test for cash-generating units containing goodwill

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

	Note	2011 HK$'000	2010 HK$'000
Agricultural resources trading operation	*(i)*	98,330	81,341
Non-agricultural resources trading operation	*(ii)*	—	—
		98,330	81,341

(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 projections based on a five-year financial budget approved by management. Cash flows beyond a five-year period approved by senior management have been extrapolated with an estimated general annual growth of not more than 8% (2010: 5%) for a five-year period. The discount rate used of 14.2% (2010: 14.2%) reflects specific risks related to the relevant segment. The budgeted gross margin of 4.7% (2010: 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.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

		The Group	
	Note	2011 HK$'000	2010 HK$'000
Unlisted equity investments, at cost	*(a)*	27,348	25,378
Investment in former subsidiaries	*(b)*	—	1,423
		27,348	26,801

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

The unlisted equity investments with a carrying amount of HK$27,348,000 (2010: HK$25,378,000) represent the Group's interest in equity securities issued by private entities established in PRC and Hong Kong amounting to HK$26,848,000 (2010: HK$25,378,000) and HK$500,000 (2010: Nil) respectively, which are measured at cost less impairment losses. The directors of the Company are of the opinion that the fair value cannot be measured reliably because the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The Group does not intend to dispose of them in the near future.

(a) During the year, the Group invested HK$500,000 in an unlisted Hong Kong incorporated company, representing 5% equity interest in this company. The principal activity of this company is investment holding. The increase in the carrying amount movement included an exchange realignment of approximately HK$1,470,000.

(b) During the year, the Group disposed of its remaining equity interests in former subsidiaries, 荊門市浩倫農科磷化有限公司 and 福州平衡施肥科技有限公司, at their carrying amounts.

20. OTHER DEPOSIT

	The Group	
	2011	2010
	HK$'000	HK$'000
At 1 July	**13,657**	27,224
Refund of deposit for acquisition of mine	**—**	(13,612)
Exchange realignment	**790**	45
	14,447	13,657

The amounts represent two refundable deposits paid by the Group, under two letters of intent for the intended acquisition of the entire equity interest in 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 deposit to the vendors. The completion of the acquisition of these two target companies is 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 deposits 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 as regard the refund of the 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 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. On 20 May 2011, the Group further entered into a supplemental agreement with the vendors to extend the Letter of Intent A to 31 December 2012. Due to the technical complexity of the procedures to procure the mine exploitation licenses and other due diligence work 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.

21. INTERESTS IN SUBSIDIARIES

	The Company 2011 HK$'000	2010 HK$'000
Unlisted shares, at cost	**1,044,203**	11,735
Amounts due from subsidiaries	**349,129**	290,424
	1,393,332	302,159

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 the amounts due from subsidiaries approximate their fair value.

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	Proportion of ownership interest: Held by subsidiaries	Principal activities
福建浩倫農業科技集團有限公司*	PRC	RMB100,000,000	100%	—	100%	Investment holding, trading of pesticides, fertilizers and other agricultural products 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 pesticides
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%	Manufacturing and selling of fertilizers
湖南浩倫農業科技有限公司#	PRC	RMB50,000,000	100%	—	100%	Trading of pesticides, fertilizers and other agricultural products

(Expressed in Hong Kong dollars)

21. INTERESTS IN SUBSIDIARIES *(Continued)*

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	Proportion of ownership interest: Held by subsidiaries	Principal activities
江蘇浩倫農業科技有限公司#	PRC	RMB50,000,000	100%	—	100%	Trading of pesticides, fertilizers and other agricultural products
海南浩倫農業科技有限公司#	PRC	RMB20,000,000	100%	—	100%	Trading of pesticides, fertilizers 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, fertilizers and other agricultural products
山西天行若木生物工程開發有限公司@	PRC	RMB160,000,000	100%	—	100%	Research and development, nursing, planting and sales of landscaping seedlings
濟南一農化工有限公司@	PRC	RMB17,160,000	100%	—	100%	Manufacturing and selling of pesticides
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, fertilizers and other agricultural products
福建浩倫東方資源物產有限公司#	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
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	RMB900,000	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

@ Registered under the laws of the PRC as wholly-foreign-owned enterprise

22. INVENTORIES

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

	The Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	**24,750**	11,835
Work-in-progress	**1,746**	1,579
Finished goods	**11,044**	9,904
Merchandise	**62,980**	70,813
	100,520	94,131

At 30 June 2011, no inventory was pledged as securities for liabilities of the Group. (2010: HK$Nil).

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

	The Group	
	2011	2010
	HK$'000	HK$'000
Amount of inventories sold	**3,987,047**	3,183,660
(Reversal)/write down of inventories	**(5,847)**	5,847
	3,981,200	3,189,507

For the year ended 30 June 2010, there was a significant decrease in the net realisable value of fertilizers due to the decrease in market prices. As a result, a write-down of inventories of HK$5,847,000 has been recognised in the consolidated income statement.

During the year, the Group sold inventories which had been written down in prior years at price higher than the carrying amount before write-down. Therefore, the write-down of HK$5,847,000 made in prior years was reversed in current year.

23. TRADE AND OTHER RECEIVABLES

		The Group		The Company	
		2011	2010	**2011**	2010
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Trade debtors and bills receivables	*(a)*	**796,866**	617,886	**—**	—
Less: allowance for doubtful debts		**(13,075)**	(4,161)	**—**	—
		783,791	613,725	**—**	—
Due from non-controlling shareholders of subsidiaries	*(b)*	**1,025**	1,163	**—**	—
Receivable from disposal of biological assets	*(c)*	**108,355**	—	**—**	—
Loans and receivables		**893,171**	614,888	**—**	—
Deposits and prepayments		**211,126**	86,172	**73**	92
Advances to suppliers	*(d)*	**1,750,969**	1,335,976	**—**	—
		2,855,266	2,037,036	**73**	92

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

The ageing analysis of trade debtors and bills receivables is presented based on invoice date as of the end of the reporting period as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
0–90 days	**705,114**	502,827
91–180 days	**39,659**	82,828
181–365 days	**44,347**	29,754
Over 365 days	**7,746**	2,477
	796,866	617,886

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 a customer's request. Further details on the Group's credit policy are set out in note 37(a).

23. 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 receivables directly (see note 2(u)(i)).

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

	The Group	
	2011	2010
	HK$'000	HK$'000
At 1 July	**4,161**	8,855
Impairment loss recognised	**13,075**	4,161
Reversal of impairment loss	**(4,161)**	(8,855)
At 30 June	**13,075**	4,161

At 30 June 2011, the Group's trade debtors and bills receivables of approximately HK$13,075,000 (2010: HK$4,161,000) were individually determined to be impaired. The individually impaired receivables related to long overdue debts and the directors of the Company are of the opinion that these receivables are unrecoverable. The Group does not hold any collateral over these balances. Allowance for certain doubtful debts of HK$4,161,000 (2010: HK$8,855,000) made in previous years were reversed because the debts were subsequently recovered.

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

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

	The Group	
	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	**741,848**	594,913
Past due but not impaired		
Past due within 3 months	**19,127**	18,812
Past due more than 3 months	**22,816**	—
	41,943	18,812
	783,791	613,725

23. TRADE AND OTHER RECEIVABLES *(Continued)*

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

(iii) Trade debtors and bills receivables that are not impaired *(Continued)*

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 2011, no trade debtor was pledged as securities for bank loans of the Group (2010: HK$34,141,000) as detailed in note 28(a).

(b) Due from non-controlling shareholders of subsidiaries

The amounts due from non-controlling shareholders of subsidiaries are unsecured, interest-free and repayable on demand.

(c) Receivable from disposal of biological assets

The amount is related to the disposal of biological assets as detailed in note 16(iv) and is unsecured, bearing interest at 6% per annum and repayable within one year.

(d) Advances to suppliers

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

Ageing analysis

The ageing analysis of advances to suppliers is presented based on the date of advancement received by suppliers as of the end of the reporting period as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
0–90 days	**1,357,839**	827,121
91–180 days	**277,800**	346,627
181–365 days	**110,563**	148,078
Over 365 days	**4,767**	14,150
	1,750,969	1,335,976

The Group generally utilised the advances to suppliers within one year from the date of advancements received by suppliers. The Group may on a case by case basis and after evaluation of the business relationship extend the utilisation period.

24. TRADING SECURITIES

	The Group	
	2011	2010
	HK$'000	HK$'000
Trading securities (at fair value)		
Unlisted securities, outside Hong Kong	**4,147**	1,292

25. 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 and bank loans 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 bills payables and bank loans.

26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statement of financial position include a sum of HK$165,348,000 (2010: HK$90,329,000) that is 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.

27. TRADE AND OTHER PAYABLES

		The Group		The Company	
		2011	2010	**2011**	2010
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Trade creditors and bills payable	*(a)*	**1,739,866**	1,139,290	**—**	—
Accrued charges		**6,043**	2,352	**1,796**	1,411
Dividend payable		**—**	2	**—**	—
Receipts in advance from customers		**187,741**	128,075	**—**	—
Due to non-controlling shareholders of subsidiaries	*(b)*	**890**	3,454	**—**	—
Due to a director	*39(e)*	**447**	2,190	**—**	—
Other payables		**69,673**	40,684	**—**	—
Financial liabilities measured at amortised cost		**2,004,660**	1,316,047	**1,796**	1,411

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

27. TRADE AND OTHER PAYABLES *(Continued)*

(a) Trade creditors and bills payable

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

	The Group	
	2011	2010
	HK$'000	HK$'000
Due within 1 month or on demand	**385,103**	324,959
Due after 1 month but within 2 months	**311,865**	196,804
Due after 2 months but within 3 months	**246,807**	105,939
Due after 3 months but within 6 months	**762,481**	496,819
Due after 6 months	**33,610**	14,769
	1,739,866	1,139,290

At 30 June 2011, the bills payable of approximately HK$1,497 millions (2010: HK$928 millions) were secured by restricted bank deposits of the Group amounting to approximately HK$605 millions (2010: HK$341 millions) (note 25) and guarantees provided by independent third parties and a director of the Company (the "Guarantees") amounting to approximately HK$1,857 millions (2010: HK$1,581 millions) and approximately HK$1,053 millions (2010: HK$706 millions) respectively. The Guarantees were also used to support those unsecured bank loans mentioned in note 28(b).

In addition, plant and machinery of the Group with a total carrying amount of approximately HK$2 millions (2010: HK$3 millions) were pledged to banks as securities.

(b) Due to non-controlling shareholders of subsidiaries

The amounts due to non-controlling shareholders of subsidiaries are unsecured, interest-free and repayable on demand.

28. BANK LOANS

At 30 June 2011, details of the bank loans carried at amortised cost and repayable within 5 years were as follows:

		The Group	
		2011	2010
	Note	**HK$'000**	HK$'000
Secured	*(a)*	**98,122**	43,234
Unsecured	*(b)*	**591,302**	501,693
		689,424	544,927
Carrying amount repayable			
On demand or within one year		**674,977**	539,009
More than one year but not exceeding two years		**—**	5,918
More than two years but not more than five years		**14,447**	—
		689,424	544,927
Less: Amounts due within one year shown under current liabilities		**(674,977)**	(539,009)
Non-current liabilities		**14,447**	5,918

(a) At 30 June 2011, bank loans of the Group amounting to HK$90,296,000 (2010: HK$34,130,000) were secured by the followings:

	2011	2010
	HK$'000	HK$'000
Buildings	**51,396**	—
Lease premiums for land	**8,230**	—
Trade debtors	**—**	34,141
Restricted bank deposits	**4,824**	—
	64,450	34,141

At 30 June 2011, 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 a bank as securities for facilities to the total extent of approximately HK$10,113,000 (2010: HK$9,560,000) granted to that subsidiary, of which approximately HK$7,826,000 (2010: HK$9,104,000) was utilised.

(b) The unsecured bank loans are supported by the guarantees as mentioned in note 27(a) and additional guarantees provided by a director of the Company and independent third parties amounting to approximately HK$74,645,000 (2010: HK$104,700,000) and HK$96,737,000 (2010: HK$71,469,000) respectively.

(c) At 30 June 2011, the effective interest rates of the bank loans ranged from 3.00% to 11.36% (2010: 1.28% to 7.43%) per annum.

29. EQUITY SETTLED SHARE-BASED TRANSACTIONS

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. The options give the holder the right to subscribe for ordinary shares 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 shares issuable under options granted
1 December 2003	Immediate	1 January 2004 to 30 December 2011	HK$0.55	400,000
27 July 2009	Immediate	27 July 2009 to 30 December 2011	HK$0.72	48,270,000

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

	2011		2010	
	Weighted average exercise price HK$	**Number of shares issuable under options granted '000**	Weighted average exercise price HK$	Number of shares issuable under options granted '000
Outstanding at 1 July	**0.72**	**48,670**	0.55	800
Granted during the year	**—**	**—**	0.72	48,970
Exercised during the year	**—**	**—**	0.66	(1,100)
Outstanding at 30 June	**0.72**	**48,670**	0.72	48,670
Exercisable at 30 June	**0.72**	**48,670**	0.72	48,670

The weighted average share price at the date of exercise for share options exercised during the year was HK$Nil (2010: HK$0.80).

The options outstanding have an weighted exercise price of HK$0.72 (2010: HK$0.72) and a weighted average remaining contractual life of 0.5 years as at 30 June 2011 (2010: 1.5 years).

(Expressed in Hong Kong dollars)

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

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

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 (including the directors of the Company) were granted share options to subscribe for shares in the Company in accordance with the accounting policy set out in note 2(x)(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.

30. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation

Provision for taxation of approximately HK$51,379,000 (2010: HK$47,995,000) in the consolidated statement of financial position represents provision for the PRC enterprise income tax.

(b) Deferred tax liabilities recognised

The Group

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Fair value adjustments arising from acquisition of subsidiaries HK$'000
At 1 July 2009, 30 June 2010 and 1 July 2010	—
Acquisition of subsidiaries (note 35 (b))	14,128
Charged/(credited) to profit or loss	(906)
Exchange realignment	480
At 30 June 2011	13,702

(c) Deferred taxation not recognised

In accordance with the accounting policy set out in note 2(z), the Group has not recognised deferred tax assets in respect of tax losses of approximately HK$24,254,000 (2010: HK$21,910,000). 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 (2010: HK$14,280,000) do not have an expiry date and tax losses of approximately HK$9,974,000 (2010: HK$7,630,000) 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.

31. DERIVATIVE FINANCIAL LIABILITIES

The Group and the Company

	Contingent consideration for business combination (note (i)) HK$'000	Derivative components of convertible bonds issued by the Company (note 32(d)) HK$'000	Total HK$'000
At 1 July 2009, 30 June and 1 July 2010	—	—	—
Additions from acquisition of subsidiaries (note 35(b))	44,530	—	44,530
Issue of convertible bonds (note 32(c))	—	46,749	46,749
Change in fair value	(16,270)	(24,547)	(40,817)
At 30 June 2011	28,260	22,202	50,462

Note:

(i) On 2 November 2010, the Group completed the acquisition of 100% equity interest in Fast Base Holdings Limited ("Fast Base") and its subsidiaries (together "Fast Base Group") from an independent third party. The acquisition is satisfied by cash of RMB11,520,000 (equivalent to approximately HK$13,395,000) and 68,000,000 Company shares to be issued in two tranches of 28,000,000 shares and 40,000,000 shares when the audited consolidated net profit after tax of Fast Base Group for each of the years ended/ending 30 June 2011 and 2012 shall not be less than RMB13,000,000 and RMB22,000,000 respectively, in accordance with the agreement. In the event that the above profit target is not met, the number of consideration shares to be issued shall be reduced according to the actual shortfall.

At the date of completion, the fair value of the Company's shares was HK$0.78 each. Based on the directors' assessment of the vendors' estimate of the future profit of Fast Base Group, the fair value of the consideration shares expected to be issued is estimated to be HK$44,530,000.

The Company's obligation to issue a variable number of shares is accounted for as a liability and carried at fair value at the end of each reporting period, with the resulting gain or loss recognised in profit or loss.

As at 30 June 2011, the fair value of the contingent consideration was reduced by approximately HK$16,270,000 as a result of the re-estimation of the fair value of the contingent consideration payable.

32. CONVERTIBLE BONDS

The Group and the Company

(a) 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 (the "2011 Convertible Bonds") at 3% interest per annum payable annually. Subject to certain adjustments, the 2011 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 24 July 2009 (the date of issue) to 23 July 2011, the maturity date on which date the Company will redeem the 2011 Convertible Bonds at 100% of its outstanding principal amount together with accrued interest.

The 2011 Convertible Bonds or any part(s) thereof may only 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 2011 Convertible Bonds shall be in respect of the whole or any part(s) of the outstanding principal amount of the 2011 Convertible Bonds, provided that such principal amount to be assigned or transferred shall not be less than HK$3,000,000 on each transfer or assignment.

The 2011 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 2011 Convertible Bonds were measured at fair value based on a valuation performed by Ample Appraisal Limited, an independent professional valuer, who has a recognised and relevant professional qualification and experience. Valuation was made on the effective interest method. The effective interest rate of the liability component is approximately 5.87%.

(b) On 1 November 2010, the Company issued zero coupon rate convertible bonds with an aggregate principal amount of HK$800,000,000 ("2015 Convertible Bonds") in four tranches, namely, 2015 Convertible Bonds I, II, and III and IV for the principal amount of HK$524,000,000, HK$50,000,000, HK$82,000,000 and HK$144,000,000 respectively, upon the completion of the acquisition of Present Sino Limited and its subsidiaries (collectively "Present Sino Group") (as detailed in note 35(a)) to Mr. Wu Shaoning, an executive director, the chairman and controlling shareholder of the Company and eight other vendors (collectively the "Vendors"). Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the 2015 Convertible Bonds at their principal amount on 1 November 2015.

The 2015 Convertible Bonds I and IV can be converted at any time on or after 2 November 2010 and up to the close of business on 30 October 2015. For 2015 Convertible Bonds II and III, their respective conversion period commences from the date of publication of the annual results of the Company for the financial year ended/ending 30 June 2011 and 30 June 2012, and ending on 30 October 2015.

During the conversion period, the bondholders are entitled to convert the 2015 Convertible Bonds into ordinary shares of the Company of HK$0.1 each at the option of the bondholders at an initial conversion price of HK$1 per share (the "Conversion Price"). The Conversion Price is subject to anti-dilutive adjustments for adjusting events relating to the securities of the Company.

The 2015 Convertible Bonds I, II, III and IV are transferable during their respective conversion period.

The 2015 Convertible Bonds II, III and IV (all issued to the founder of the principal subsidiary of Present Sino Group who is also one of the Vendors) are subject to a consideration adjustment by way of reduction of the corresponding principal amount of the 2015 Convertible Bonds in the event that the target net profit of Present Sino Group for each of the years ended 30 June 2011 and 30 June 2012 is not attained and that the said founder is unable to settle the shortfall by cash.

32. CONVERTIBLE BONDS *(Continued)*

The Group and the Company *(Continued)*

(b) *(Continued)*

The convertible bonds contained two components, the liability and equity components. The equity component is presented in equity as "Convertible bonds equity reserve". As at 1 November 2010, the convertible bonds were measured at fair value based on a valuation performed by Ample Appraisal Limited, an independent professional valuer, who has a recognised and relevant professional qualification and experience. Valuation was made on the effective interest method. The effective interest rate of the liability component is approximately 6.484%.

(c) On 26 November 2010, the Company entered into a subscription agreement to issue zero coupon rate convertible bonds for an aggregate principal amount of RMB70 million (equivalent to approximately HK$82,180,000) (the "2016 Convertible bonds"). The issue of the 2016 Convertible Bonds was completed on 28 January 2011. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the 2016 Convertible Bonds at 133.82% of its principal amount on 28 January 2016, which is based on an internal rate of return of 6% per annum on a compound basis.

The 2016 Convertible Bonds are convertible at any time on or after 27 February 2011 and up to the close of business on 18 January 2016 by the bondholders into ordinary shares of the Company of HK$0.1 each at the option of the bondholder at an initial conversion price of HK$1 per share (the "Conversion Price"). The conversion price is subject to anti-dilutive adjustments for adjusting events relating to the securities of the Company.

The Conversion Price shall be reset downwards on 28 July 2011, 28 January 2012, 28 July 2012, 28 January 2013, and 28 July 2013 (each, the "Price Reset Date") to an adjusted conversion price equal to the simple average of the closing price per share for the 30 trading days immediately prior to the Price Reset Date (the "Reset Conversion Price"), provided that the Reset Conversion Price shall not be reduced to below HK$0.70.

Both the Company and the bondholders have redemption options on the 2016 Convertible Bonds pursuant to the subscription agreement:

From 28 January 2014 to 28 January 2016, both dates inclusive, the Company has the option (the "Mandatory Conversion Option") to redeem the 2016 Convertible Bonds in the exact principal amount of RMB17,500,000 each time at a redemption price equal to the principal amount plus a yield accrued at 6% per annum on a compound basis on the respective principal amount of the 2016 Convertible Bonds by way of issue and allotment of Conversion Shares to the bondholders subject to fulfilment of the following conditions:

(i) each of the closing prices per share quoted on the main board of the Stock Exchange for the 30 consecutive trading days immediately before the date of exercise of the Mandatory Conversion Option (including the date of exercise if the date will be a trading day) will have exceeded 130% of the Conversion Price in force at that time plus a yield accrued at 6% per annum on a compound basis ; and

(ii) the Mandatory Conversion Option will have not been exercised by the Company or more than 45 trading days have been lapsed after the delivery of the conversion shares to the bondholders in respect of the previous exercise of the Mandatory Conversion Option.

(Expressed in Hong Kong dollars)

32. CONVERTIBLE BONDS *(Continued)*

The Group and the Company *(Continued)*

(c) *(Continued)*

On 28 January 2014, the bondholders of the 2016 Convertible Bonds have the option to require the Company to redeem all or part of the 2016 Convertible Bonds at 119.1% of their unpaid principal amount as at 28 January 2014. A written notice to exercise the right must be lodged with the Company at least 60 days before the abovementioned date.

As the 2016 Convertible Bonds will not result in settlement by the exchange of a fixed amount of cash for a fixed number of the Company's shares because of the conversion price reset provision, in accordance with the requirements of HKAS 32, the bonds are separated into two components: a compound derivative component consisting of the conversion option and the redemption option, and a liability component consisting of the straight debt element.

As at 28 January 2011 and 30 June 2011, the entire 2016 Convertible Bonds were measured at fair value based on a valuation performed by Ample Appraisal Limited, an independent professional valuer, who has a recognised and relevant professional qualification and experience. The valuation was made based on the Binominal Model for the derivative component, with major inputs used in the model as follows:

	At 30 June 2011	Issue date
Stock price	HK$0.495	HK$0.78
Expected volatility	45.822%	51.791%
Risk free rate	1.299%	1.76%

Any changes in the major inputs into the model will result in changes in the fair value of the derivative components. The change in the fair value of the derivative component during the year ended 30 June 2011 results in a fair value gain of HK$24,547,000, which has been included in the "Gain from change in fair value of derivative financial liabilities", which includes change in fair value of the conversion options embedded in the 2016 Convertible Bonds and contingent consideration from business combination, in the consolidated income statement for the year ended 30 June 2011.

Interest expenses are calculated using the effective interest method by applying the effective interest rate of 25.628% to the adjusted liability component.

32. CONVERTIBLE BONDS *(Continued)*

The Group and the Company *(Continued)*

(d) The carrying value of the liability component and derivative components of the above convertible bonds are as follow:

Liability component

	2011 HK$'000	2010 HK$'000
At 1 July	29,859	—
Issue during the year	619,774	28,391
Interest charged	28,520	1,555
Interest paid	(896)	(2)
Conversion	(102,390)	(85)
At 30 June	574,867	29,859
Analysed for reporting purpose		
Current portion*	30,623	896
Non-current portion	544,244	28,963
At 30 June	574,867	29,859

* The current portion represents the interest and principals payable within one year at the end of each reporting period.

Derivative component (note 31)

	2011 HK$'000	2010 HK$'000
At 1 July	—	—
Issue during the year	46,749	—
Change in fair value of derivative financial liabilities	(24,547)	—
At 30 June	22,202	—

33. PROMISSORY NOTES

	The Group and the Company	
	2011	2010
	HK$'000	HK$'000
At 1 July	**—**	—
Issue during the year	**174,543**	—
Interest charged	**7,473**	—
At 30 June	**182,016**	—
Analysed for reporting purpose		
Current portion	**—**	—
Non-current portion	**182,016**	—
	182,016	—

On 1 November 2010, the Company issued promissory notes for an aggregate principal amounts of HK$200,000,000 in two tranches, First Promissory Note and Second Promissory Note, in the principal amount of HK$132,000,000 and HK$68,000,000 respectively, upon the completion of the acquisition of Present Sino Group (as detailed in note 35(a)) to Mr. Wu Shaoning, (an executive director, the chairman and controlling shareholder of the Company and one of the Vendors of the Present Sino Group) and another Vendor (founder of the principal subsidiary of Present Sino Group) respectively. The promissory notes are due on the business day immediately following the expiry of three months from the date of publication of the annual results of the Company for the financial year ending 30 June 2012.

The principal amount of the Second Promissory Note is subject to a downward adjustment on the due day in the event that the target audited net profit of Present Sino Group for each of the years ended/ending 30 June 2011 and 30 June 2012 is not attained, on a dollar-to-dollar basis and that the said founder is unable to settle the shortfall by cash.

The fair value of promissory notes is approximately HK$174,543,000 as at the issue date, calculated at the effective interest rate of 6.484% per annum. The promissory notes are classified as non-current liabilities and are carried at amortised cost until settlement on due date.

34. CAPITAL AND RESERVES

(a) The Group

		Attributable to owners of the Company											
	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Convertible bond 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
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 in PRC		—	—	—	2,608	—	—	62	—	—	2,670	—	2,670
Disposals of subsidiaries	*35(f)*	—	—	—	(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	*34(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 unlisted warrants		—	—	—	—	—	—	—	(731)	731	—	—	—
Issue of shares upon exercise of unlisted warrants	*34(c)*	5,890	54,725	—	—	—	—	—	(1,715)	—	58,900	—	58,900
Disposal of subsidiaries	*35(f)*	—	—	—	—	—	—	—	—	—	—	(724)	(724)
Issue of shares upon exercise of share options	*34(c)*	110	729	—	—	—	(115)	—	—	—	724	—	724
Capital injected by non-controlling interests		—	—	—	—	—	—	—	—	—	—	228	228
Issue of shares upon conversion of convertible bonds	*34(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

34. CAPITAL AND RESERVES *(Continued)*

(a) The Group *(Continued)*

		Attributable to owners of the Company											
	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Convertible bond 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
At 1 July 2010		64,277	236,614	1,188	84,759	1,374	7,925	60,221	—	408,239	864,597	20,851	885,448
Profit for the year		—	—	—	—	—	—	—	—	126,558	126,558	3,697	130,255
Exchange difference on translation of the financial statements of subsidiaries in PRC		—	—	—	87,927	—	—	(76)	—	—	87,851	82	87,933
Disposals of subsidiaries	*35(e)*	—	—	—	(798)	—	—	—	—	—	(798)	—	(798)
Total other comprehensive income		—	—	—	87,129	—	—	(76)	—	—	87,053	82	87,135
Total comprehensive income for the year		—	—	—	87,129	—	—	(76)	—	126,558	213,611	3,779	217,390
Transactions with owners													
Issue of unlisted warrants	*34(d)(vi)*	—	—	—	—	—	—	—	1,800	—	1,800	—	1,800
Issue of convertible bonds		—	—	—	—	215,657	—	—	—	—	215,657	—	215,657
Transfers		—	—	—	—	—	—	1,792	—	(1,792)	—	—	—
Disposal of subsidiaries	*35(e)*	—	—	—	—	—	—	—	—	—	—	(1,409)	(1,409)
Issue of shares upon conversion of convertible bonds	*34(c)*	13,700	125,621	—	—	(36,931)	—	—	—	—	102,390	—	102,390
Total transactions with owners		13,700	125,621	—	—	178,726	—	1,792	1,800	(1,792)	319,847	(1,409)	318,438
At 30 June 2011		**77,977**	**362,235**	**1,188**	**171,888**	**180,100**	**7,925**	**61,937**	**1,800**	**533,005**	**1,398,055**	**23,221**	**1,421,276**

34. CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Note	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Convertible bond equity reserve HK$'000	Employee share-based compensation reserve HK$'000	Warrant reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 July 2009		48,977	114,391	11,527	—	—	2,446	(38,338)	139,003
Placement of new shares	34(c)	9,290	66,690	—	—	—	—	—	75,980
Issue of shares upon exercise of unlisted warrants	34(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 unlisted warrants		—	—	—	—	—	(731)	731	—
Issue of shares upon exercise of share option	34(c)	110	729	—	—	(115)	—	—	724
Issue of shares upon conversion of convertible bonds	34(c)	10	79	—	(4)	—	—	—	85
Loss for the year		—	—	—	—	—	—	(13,117)	(13,117)
At 30 June 2010 and 1 July 2010		64,277	236,614	11,527	1,374	7,925	—	(50,724)	270,993
Issue of unlisted warrants		—	—	—	—	—	1,800	—	1,800
Issue of convertible bonds		—	—	—	215,657	—	—	—	215,657
Issue of shares upon conversion of convertible bonds	34(c)	13,700	125,621	—	(36,931)	—	—	—	102,390
Loss for the year		—	—	—	—	—	—	(6,555)	(6,555)
At 30 June 2011		**77,977**	**362,235**	**11,527**	**180,100**	**7,925**	**1,800**	**(57,279)**	**584,285**

34. CAPITAL AND RESERVES *(Continued)*

(c) Share capital

	Note	**2011** Number of shares '000	**2011** Amount HK$'000	2010 Number of shares '000	2010 Amount HK$'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		**642,767**	**64,277**	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)*	**137,000**	**13,700**	100	10
Issue of shares upon exercise of share options	*(iv)*	**—**	**—**	1,100	110
		779,767	**77,977**	642,767	64,277

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 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 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 Warrant expired on 6 September 2009. During the year ended 30 June 2010, 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 principal amount of the 2011 Convertible Bonds. During the year ended 30 June 2011, the 2015 Convertible Bonds with an aggregate principal amount of HK$137,000,000 were converted into 137,000,000 ordinary shares of the Company at a conversion price of HK$1 each.

(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 respectively were issued upon the exercise of share options.

34. 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) 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(aa).

(iv) 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.

(v) Employee share-based compensation reserve

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

(vi) 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 respects with the Company's existing shares.

On 28 January 2011, the Company issued 30 unlisted warrants each conferring rights to subscribe for 2,000,000 shares of the Company, at an issue price of HK$0.03 per subscription right for one share, pursuant to a subscription agreement dated 26 November 2010. Each warrant entitles the holder to subscribe for 2,000,000 ordinary shares of HK$0.10 each at an initial subscription price of HK$1.2 per share during the period from 28 January 2011 to 28 January 2016. None of the warrant was exercised from the date of issue to the reporting date. Shares to be issued under the warrant will rank pari passu in all respect with the Company's existing shares.

(Expressed in Hong Kong dollars)

34. CAPITAL AND RESERVES *(Continued)*

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

(vi) Warrant reserve *(Continued)*

Movements in number of underlying shares of the warrants:

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

Date of issue	**At 1 July 2010**	**Issued during the year**	**Exercised during the year**	**Lapsed during the year**	**At 30 June 2011**
28 January 2011	—	60,000,000	—	—	**60,000,000**

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

		Number of underlying shares of the warrants	
Date of issue	**Exercisable period**	**2011**	2010
28 January 2011	28 January 2011 to 28 January 2016	**60,000,000**	—

(vii) 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 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 to sino-foreign equity joint venture enterprises, the appropriation to the statutory reserve fund and enterprise expansion fund is to be determined by the board of directors of the respective companies.

34. CAPITAL AND RESERVES *(Continued)*

(e) Distributability of reserves

As at 30 June 2011, the aggregate amount of reserves available for distribution to owners of the Company amounted to approximately HK$316,483,000 (2010: HK$197,417,000) 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$362,235,000 (2010: HK$236,614,000) and HK$11,527,000 (2010: HK$11,527,000) respectively, less accumulated losses of approximately HK$57,279,000 (2010: HK$50,724,000), which is available for distribution provided that immediately following the date on which a 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 debts or the redemption of existing debts 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).

The Group monitors capital on the basis of a 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%.

During the year ended 30 June 2011, the Group's strategy, which was unchanged from 2010, was to maintain a gearing ratio of within 20% to 40%. The gearing ratios at 30 June 2011 and 2010 were as follows:

	2011 **HK$'000**	2010 HK$'000
Bank loans	**689,424**	544,927
Less: Cash and cash equivalents	**(178,514)**	(95,234)
Net debt	**510,910**	449,693
Total equity	**1,421,276**	885,448
Total capital	**1,932,186**	1,335,141
Gearing ratio	**26%**	33%

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

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of Present Sino Limited and its subsidiaries during the year ended 30 June 2011

On 1 November 2010, the Group acquired the control of Present Sino Limited ("Present Sino") and its subsidiaries (together "Present Sino Group") through the acquisition of 100% equity interest in Present Sino from Mr. Wu Shaoning, an executive director as well as, the chairman and controlling shareholder of the Company as a vendor and eight other vendors (collectively the "Vendors") at a total consideration of HK$1,000,000,000.

The consideration was satisfied by the Company in the following manner:

(i) as to HK$800,000,000 by the issue of convertible bonds (see note 32(b)); and

(ii) as to HK$200,000,000 by the issue of promissory notes (see note 33).

The consideration is subject to the following adjustment:

Pursuant to the sales and purchase agreement, Mr. Xue Zhixin ("Mr. Xue"), one of the vendors, has undertaken that the audited consolidated net profit after tax of Present Sino Group for each of the years ended/ending 30 June 2011 and 2012 shall not be less than HK$120,000,000 and HK$150,000,000 respectively. In the event the guaranteed profit is not met, Mr. Xue shall pay to the Company or settle by way of set off against the principal amount of convertible bonds and/or promissory note any shortfall amount on a dollar-to-dollar basis on or before the end of three months from the date of publication of the annual results of the Company for the financial year ending 30 June 2011 and 30 June 2012 respectively.

Present Sino Group is principally engaged in the research and development, nursing, planting and sale of landscaping seedling. The acquisition of Present Sino Group allows the Company to diversify its scope of agriculture business to seedling industry in the PRC, enlarge its asset base and enhance its source of income.

The acquisition of Present Sino Group constitutes a very substantial acquisition and connected transaction of the Company under the Listing Rules, the details of which are set out in the Company's circular dated 25 September 2010.

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

(a) Acquisition of Present Sino Limited and its subsidiaries during the year ended 30 June 2011 *(Continued)*

The following summarised the recognised amounts of identifiable assets acquired and liabilities assumed as at 1 November 2010:

	Amounts recognised (at fair value) HK$'000
Net assets acquired of	
Property, plant and equipment	7,365
Biological assets	1,155,334
Trade and other receivables	58,485
Cash and cash equivalents	1,472
Trade and other payables	(44,133)
Net identifiable assets and liabilities	1,178,523
Gain from bargain purchase on acquisition of Present Sino Group (note iii)	(203,980)
Consideration for acquisition	974,543
Satisfied by:	
— Promissory notes at fair value (note 33)	174,543
— Convertible bonds (note 32(b))	800,000
	974,543
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Present Sino Group:	
Cash consideration paid	—
Cash and cash equivalent acquired	1,472
Net inflow of cash and cash equivalents in respect of the acquisition of the subsidiaries	1,472

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

(a) Acquisition of Present Sino Limited and its subsidiaries during the year ended 30 June 2011 *(Continued)*

(i) Except for the biological assets, the fair value of the identifiable assets acquired and liabilities assumed is approximately the same as their corresponding carrying amount immediately before the acquisition.

(ii) The trade and other receivables in the transaction with a fair value of HK$58,485,000 had an equivalent gross contractual amount. There is no expected uncollectible balance.

(iii) The bargain purchase resulted from the following factors:

— A discount offered by the Vendors;

— The original sale and purchase terms were referenced to the results of Present Sino Group as of 30 April 2010 while the completion date of acquisition was on 1 November 2010; and

— RMB which is the functional currency of Present Sino Group appreciated against HK$ which is the functional and presentation currency of the Company, and resulted in an increase in the value of net assets of Present Sino Group acquired upon completion.

(iv) For the period from 2 November 2010 to 30 June 2011, the Present Sino Group contributed revenue of HK$116,076,000 and net loss of HK$124,612,000 respectively to the consolidated turnover and net profit of the Group for the year ended 30 June 2011. Had the acquisition occurred on 1 July 2010, the Group's revenue and consolidated profit for the year ended 30 June 2011 would have been HK$4,318,405,000 and HK$114,333,000 respectively.

The above pro forma information on the Group's revenue and results is for illustrative purpose only and is not necessarily indicative of revenue and results of operation of the Group that actually would have been achieved had the acquisition been completed on 1 July 2010, nor is it intended to be a projection of future results.

(b) Acquisition of Fast Base Holdings Limited and its subsidiaries during the year ended 30 June 2011

On 2 November 2010, the Group completed the acquisition of 100% equity interest in Fast Base Holdings Limited ("Fast Base") and its subsidiaries (together "Fast Base Group") from an independent third party. The acquisition is satisfied by cash of RMB11,520,000 (equivalent to approximately HK$13,395,000) and 68,000,000 consideration shares at an issue price of HK$1 per consideration share, to be issued in two tranches of 28,000,000 shares and 40,000,000 shares, when the consolidated net profit after tax of Fast Base Group for the years ending 30 June 2011 and 2012 shall not be less than RMB13,000,000 and RMB22,000,000 respectively, in accordance with the agreement. In the event that the above profit is not met, the number of consideration shares to be issued shall be reduced according to the actual shortfall.

The acquisition of Fast Base Group allows the Company to expand its manufacturing operation in respect of pesticides and thereby enhance its market share in the pesticides market and generate a synergy effect with its existing distribution network of agricultural resources products.

The acquisition of Fast Base Group constitutes a discloseable transaction of the Company under the Listing Rules, the details of which are set out in the Company's announcement dated 29 October 2010.

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

(b) Acquisition of Fast Base Holdings Limited and its subsidiaries during the year ended 30 June 2011 *(Continued)*

The following summarised the recognised amounts of identifiable assets acquired and liabilities assumed as at 2 November 2010:

	Amounts recognised (at fair value) HK$'000
Net assets acquired of	
Property, plant and equipment	14,357
Lease premium for land	8,058
Intangible asset	52,895
Inventory	20,125
Trade and other receivables	31,376
Cash and cash equivalents	2,649
Trade and other payables	(37,474)
Bank loan	(6,628)
Deferred tax liabilities	(14,128)
Net identifiable assets and liabilities	71,230
Gain from bargain purchase on acquisition of the Fast Base Group	(13,305)
Consideration for acquisition	57,925
Satisfied by:	
Cash	13,395
Fair value of the contingent consideration shares as at the completion date (note 31)	44,530
	57,925
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Fast Base Group:	
Cash consideration paid	(13,395)
Cash and cash equivalent acquired	2,649
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries	(10,746)

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

(b) Acquisition of Fast Base Holdings Limited and its subsidiaries during the year ended 30 June 2011 *(Continued)*

(i) Except for property, plant and equipment, lease premium for land and intangible assets, the fair value of the identifiable assets acquired and liabilities assumed is approximately the same as their corresponding carrying amount immediately before the acquisition.

(ii) The trade and other receivables in the transaction with a fair value of HK$31,376,000 had an equivalent gross contractual amount. There is no expected uncollectible balance.

(iii) For the period from 3 November 2010 to 30 June 2011, the Fast Base Group contributed revenue of HK$84,898,000 and net profit of HK$9,638,000 respectively to the consolidated turnover and net profit of the Group for the year ended 30 June 2011. Had the acquisition occurred on 1 July 2010, the Group's revenue and consolidated profit for the year ended 30 June 2011 would have been HK$4,266,561,000 and HK$130,312,000 respectively.

The above pro forma information on the Group's revenue and results is for illustrative purpose only and is not necessarily indicative of the revenue and results of operation of the Group that actually would have been achieved had the acquisition been completed on 1 July 2010, nor is it intended to be a projection of future results.

(c) Acquisition of the trading operation of 北京綠營農業科技開發有限公司 during the year ended 30 June 2011

On 30 April 2011, the Group acquired the trading operation of 北京綠營農業科技開發有限公司 ("北京綠營") for a consideration of approximately HK$18,855,000. 北京綠營 has talent and skilful work forces in agricultural business in Beijing, the PRC.

Details of net assets and goodwill acquired are as follows:

	Trading operation of 北京綠營 HK$'000
Purchase consideration by cash	18,855
Less: fair value of net assets acquired	—
Goodwill (Note 18)	18,855

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition:

	Trading operation of 北京綠營 HK$'000
Purchase consideration by cash	(18,855)
Cash and cash equivalents acquired	—
Net outflow of cash and cash equivalents in respect of the acquisition	(18,855)

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

(c) Acquisition of the trading operation of 北京綠營農業科技開發有限公司 during the year ended 30 June 2011 *(Continued)*

Goodwill represents the premium paid for the benefit of expected synergies from the talent and skills of the acquired workforces, future economic benefit resulting from revenue growth and future market development generated from its business activities.

For the period from 1 May 2011 to 30 June 2011, the trading operation contributed revenue of HK$10,987,000 and net profit of HK$3,867,000 respectively to the consolidated turnover and net profit of the Group for the year ended 30 June 2011. Had the acquisition occurred on 1 July 2010, the Group's revenue and consolidated profit for the year ended 30 June 2011 would have been HK$4,256,098,000 and HK$134,418,000 respectively.

The above pro forma information on the Group's revenue and results is for illustrative purpose only and is not necessarily indicative of the revenue and results of operation of the Group that actually would have been achieved had the acquisition been completed on 1 July 2010, nor is it intended to be a projection of future results.

(d) 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 rights in 江西遠洋 which is engaged in the 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:

	Amounts recognised (at fair value) HK$'000
Net assets acquired of	
Property, plant and equipment	32,045
Inventories	36
Trade and other receivables	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	—
Consideration for acquisition	6,432
Satisfied by:	
Cash consideration	6,432
Analysis of the net outflow 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)

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

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

(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 their 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 an equivalent gross contractual amount. 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 that 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 on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2009.

The above pro forma information on the Group's revenue and results is for illustrative purpose only and is not necessarily indicative of revenue and results of operation 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.

(e) Disposals of subsidiaries and deregistration of branches during the year ended 30 June 2011

During the year ended 30 June 2011, the Group disposed of the entire equity interests of four subsidiaries of the Group through either deregistration or sale to independent third parties. The Group also deregistered four branches during the year ended 30 June 2011. The five deregistered subsidiary/branches were 嫩江天潤農業科技有限公司, 江蘇浩倫農業科技有限公司建湖分公司, 江蘇浩倫農業科技有限公司徐州分公司, 湖南浩倫農業科技有限公司衡陽分公司 and 江西浩倫農業科技有限公司東鄉複合肥廠. The three subsidiaries sold were太原市浩倫科力農業科技有限公司, 濟南浩倫安耐特化工有限公司 and 莆田浩倫農業科技有限公司. All these subsidiaries/branches were engaged in the manufacturing/trading of fertilizers, pesticides and other agricultural products.

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

(e) Disposals of subsidiaries during the year ended 30 June 2011 *(Continued)*

The cash flow and the carrying amount of net assets of the subsidiaries sold or deregistered at the date of disposal were as follows:

	Amounts derecognised HK$'000
Property, plant and equipment	361
Inventories	17,230
Trade and other receivables	14,441
Cash and cash equivalents	2,249
Trade and other payables	(26,118)
Tax payable	(173)
Amount due to the Group	(3,416)
Net assets disposed of	4,574
Non-controlling interest	(1,409)
Attributable goodwill	6,923
Exchange reserve	(798)
	9,290
Less: Consideration of disposals	(4,147)
Loss on disposal of subsidiaries	5,143
Cash consideration received	4,147
Cash and cash equivalents disposed of	(2,249)
Net cash inflow arising on disposals	1,898

(f) Disposals of subsidiaries during the year ended 30 June 2010

During the year ended 30 June 2010, the Group disposed of 75% of its equity interest in 福州平衡施肥科技有限公司 and 73.5% interest in 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 became available-for-sale investments of the Company as the Group no longer have a significant influence in these former subsidiaries since it does not have a representative in the investees' board and the Group's shares carry no voting right. The Company also deregistered three subsidiaries during the year.

The two subsidiaries sold 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 subsidiaries deregistered were 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 were engaged in the manufacturing/trading of fertilizers, pesticides and other agricultural products.

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

(f) Disposals of subsidiaries during the year ended 30 June 2010 *(Continued)*

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

	Amount derecognised 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:	
Consideration of disposals	(11,812)
Fair value of 25% interest retained	(1,423)
Loss on disposal of subsidiaries	8,474
Cash consideration received	11,812
Cash and cash equivalents disposed of	(3,052)
Net cash inflow arising on disposals	8,760

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

(f) Disposals of subsidiaries during the year ended 30 June 2010 *(Continued)*

The fair value of investment retained and the amount owed from the former subsidiaries were as follows:

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

The fair value of the investment retained in the former subsidiaries at the date of disposal were regarded as the fair value on initial recognition of available-for-sale financial assets and are as set out in note 19.

36. 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.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The major types of risks inherent in the Group's business operation are credit risk, liquidity risk, interest rate risk, foreign currency risks 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 institutions.

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

37. 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 8% (2010: 11%) and 22% (2010: 22%) of the total trade receivables were due from the Group's largest customer and the five largest customers, respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Group does not provide any other guarantee 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 23.

(ii) Deposits with financial institutions

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

(iii) Advance to suppliers

The advances to suppliers are generally utilised by subsequent purchase order placed by the Group within one year from the date of advancements. The Group establishes adequate credit control for determination of limits, approvals and other monitoring procedures to ensure that follow-up actions are taken to recover unutilised advance. In addition, the Group reviews the recoverable amount of the prepayment or deposits paid to suppliers 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.

37. 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:

	2011				
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 but less than 2 years HK$'000	More than 2 but less than 5 years HK$'000
The Group					
Trade and other payables	2,004,660	2,004,660	2,004,660	—	—
Convertible bonds	574,867	804,661	30,776	—	773,885
Promissory notes	182,016	200,000	—	200,000	—
Bank loans	689,424	708,662	692,110	1,243	15,309
	3,450,967	3,717,983	2,727,546	201,243	789,194
The Company					
Convertible bonds	574,867	804,661	30,776	—	773,885
Promissory notes	182,016	200,000	—	200,000	—
Trade and other payables	1,796	1,796	1,796	—	—
	758,679	1,006,457	32,572	200,000	773,885

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

(b) Liquidity risk *(Continued)*

	2010				
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 but less than 2 years HK$'000	More than 2 but less than 5 years HK$'000
The Group					
Trade and other payables	1,316,047	1,316,047	1,316,047	—	—
Convertible bonds	29,859	31,673	896	30,777	—
Promissory notes	—	—	—	—	—
Bank loans	544,927	554,741	548,542	6,199	—
	1,890,833	1,902,461	1,865,485	36,976	—
The Company					
Convertible bonds	29,859	31,673	896	30,777	—
Promissory notes	—	—	—	—	—
Trade and other payables	1,411	1,411	1,411	—	—
	31,270	33,084	2,307	30,777	—

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

(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.

(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			
	2011		2010	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Fixed rate borrowings:				
Bank loans	**4.67–11.36%**	**381,187**	3.80–7.43	398,636
Variable rate borrowings:				
Bank loans	**3.00–7.70**	**308,237**	1.28–6.37	146,291
Total borrowings		**689,424**		544,927
Fixed rate borrowings as a percentage of total borrowings		**55.3%**		73.2%

(ii) Sensitivity analysis

At 30 June 2011, 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$3,082,000 (2010: HK$1,463,000).

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 2010.

37. 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 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

	2011		2010	
	EUR '000	USD '000	EUR '000	USD '000
Trade and other receivables	—	7,573	—	7,179
Cash and cash equivalents	—	1,421	—	393
Bank loans	(112)	(23,847)	(1,293)	(6,178)
Overall net exposure	(112)	(14,853)	(1,293)	1,394

(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.

The Group

	2011			2010		
	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	866	—	1	81	—
	(1)	(866)	—	(1)	(81)	—
EUR	1	7	—	1	92	—
	(1)	(7)	—	(1)	(92)	—

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

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis *(Continued)*

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 2010.

(e) Operation risk

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

(f) Fair value

The estimate of fair values of biological assets is disclosed in note 16.

All financial assets and liabilities are carried at fair value or 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).

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

(f) Fair value *(Continued)*

The level in the fair value hierarchy within which the fair value measurement is categorised 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							
	2011				2010			
	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	—	4,147	—	4,147	—	1,292	—	1,292
Available-for-sale financial asset								
Investment in former subsidiaries	—	—	—	—	—	—	1,423	1,423
	—	4,147	—	4,147	—	1,292	1,423	2,715
Financial liabilities at fair value through profit or loss								
Derivative component of convertible bonds	—	22,202	—	22,202	—	—	—	—
Contingent consideration from business combination	—	—	28,260	28,260	—	—	—	—
	—	22,202	28,260	50,462	—	—	—	—

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

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

(f) Fair value *(Continued)*

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

	The Group HK$'000
Investment in former subsidiaries (note 19(b)):	
At 1 July 2010	1,423
Disposal of investment in former subsidiaries	(1,473)
Exchange realignment	50
At 30 June 2011	—
Total gains or losses included in profit or loss for the year	—
Total gains or losses for the year included in profit or loss for assets held at the end of reporting period	—

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

	The Group and the Company HK$'000
Contingent consideration for business combination (note 31(i)):	
At 1 July 2010	—
Additions from acquisition of subsidiaries	44,530
Gain from change in fair value	(16,270)
At 30 June 2011	28,260
Total gain included in profit or loss for the year	16,270
Total gain for the year included in profit or loss for financial liability held at the end of reporting period	16,270

(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.

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

(h) Natural risk

The Group's revenue from seedling operation depends significantly on the ability to harvest at adequate levels. The ability to harvest and the growth of the trees in the forests may be affected by unfavourable local weather conditions and natural disasters. Weather conditions such as floods, droughts, cyclones and windstorms and natural disasters such as earthquakes, fire, disease, insect infestation and pests are examples of such events. The occurrence of severe weather conditions or natural disasters may diminish the supply of seedlings available for harvesting or the growth of the seedlings in the plantation bases.

(i) Regulatory and environmental risks

The Group's biological assets are subject to laws and regulations in the PRC in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks. The directors are not aware of any environmental liabilities as at 30 June 2011.

Certain of the Group's biological assets are located in plantation areas which the Group hold under Forest Right Certificates, which are subject to renewal in the future and the Group may not be able to review or extend its Forest Right Certificates under any unforeseeable circumstances. In the event that the Group fails to review the Forest Right Certificates upon expiration, the operation and financial performance may be adversely affected.

(j) Supply and demand risk

The Group's biological assets are exposed to risks arising from fluctuations in prices and sales quantity of seedling species. When possible the Group manages this risk by controlling its harvest quantity, according to market conditions. Management performs regular industry trend analysis to ensure the Group's pricing policy is comparable to the market and the projected harvesting quantities are consistent with the expected demand.

38. COMMITMENTS

(a) At 30 June 2011, three was no significant capital commitments not provided for in the consolidated financial statements (2010: Nil).

(b) At 30 June 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2011	2010
	HK$'000	HK$'000
Within 1 year	**14,002**	9,039
After 1 year but within 5 years	**27,254**	9,614
After 5 years	**59,876**	5,583
	101,132	24,236

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.

39. 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 2011, Mr. Wu Shaoning, a director of the Company, gave personal guarantees to the extent of HK$1,127,618,600 (2010: HK$810,288,000) in favour of banks for banking facilities granted to the Group.

(b) Securities provided by non-controlling shareholders of the subsidiaries

At 30 June 2011, 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$10,113,200 (2010: HK$9,560,000) granted to that subsidiary of the Group.

(c) 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	
	2011	2010
	HK$'000	HK$'000
Short-term employee benefits	**3,709**	2,680
Post-employment benefits	**60**	60
Share-based payments	**—**	1,642
	3,769	4,382

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

(d) Acquisition of Present Sino Limited and its subsidiaries (together the "Present Sino Group")

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following related party transactions:

During the year ended 30 June 2011, the Group acquired Present Sino Group at a total consideration of HK$1,000,000,000, satisfied by the issue of convertible bonds and promissory notes. Of the total consideration, HK$408,000,000 was payable to Mr. Wu Shaoning, the director and controlling shareholder of Present Sino. Mr. Wu Shaoning is also an executive director, the chairman and controlling shareholder of the Company. The consideration paid to Mr. Wu was in the following manner:

(i) as to HK$276,000,000 by the issue of convertible bonds in the principal amounts of HK$276,000,000 (see note 32(b)); and

(ii) as to HK$132,000,000 by the issue of promissory note, with fair value at issue date of HK$115,200,000 (see note 33).

In the opinion of the directors of the Company, the terms of the acquisition of Present Sino Group and the transactions contemplated thereunder are fair and reasonable.

39. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(e) Financing arrangements

(i) Amount due to a director

	The Group	
	2011	2010
	HK$'000	HK$'000
At 1 July	**2,190**	12,270
Advances from a director	**18,654**	6,040
Repayments to a director	**(20,344)**	(16,120)
Exchange difference	**(53)**	—
At 30 June	**447**	2,190

The amount due is included in trade and other payables (note 27). The amount due to a director is unsecured, interest-free and repayable on demand.

(ii) Convertible bonds held by Mr. Wu Shaoning (note 32(b))

	The Group and the Company	
	2011	2010
	HK$'000	HK$'000
At 1 July	**—**	—
Issued during the year	**276,000**	—
Interest charged	**8,550**	—
Conversion	**(20,545)**	—
At 30 June	**264,005**	—

(iii) Promissory notes held by Mr. Wu Shaoning (note 33)

	The Group and the Company	
	2011	2010
	HK$'000	HK$'000
At 1 July	**—**	—
Issued during the year	**115,198**	—
Interest charged	**4,932**	—
At 30 June	**120,130**	—

40. MAJOR NON-CASH TRANSACTIONS

During the year ended 30 June 2011, the Group acquired equity interests of Present Sino by the issue of convertible bonds and promissory notes, and Fast Base by the issue of contingent consideration shares. Details of these transactions are set out in notes 35(a) and 35(b) respectively.

41. LITIGATIONS

On 16 May 2011, 太原法福源科技有限公司 (the "Plaintiff") filed a writ (the "Writ") at the middle court of Taiyuan City, Shanxi Province (the "Court") against 山西天行若木生物工程開發有限公司 ("Shanxi Astrowood"), a wholly-owned subsidiary of Present Sino Limited ("Present Sino"). Shanxi Astrowood holds certain Lacebark Pine plantation base in Shanxi Province (the "Plantation Base") which it acquired for RMB15,000,000 (the "Asset Consideration") from the Plaintiff through three asset transfer contracts all dated 12 April 2010 (the "Contracts"). The Company acquired the entire interest in Present Sino on 1 November 2010.

The Plaintiff claimed that (i) in entering the Contracts Shanxi Astrowood had induced the Plaintiff to sell at extremely low prices that were collectively far below the consideration the Company paid for the acquisition of Present Sino, and (ii) the Asset Consideration was not fully paid for. The Plaintiff requested the Court to cancel the Contracts and return the Plantation Base to the Plaintiff.

On 17 May 2011, the Court issued an order (the "Court Order") sealing up the Plantation Base for a period of two years from 18 May 2011 to 17 May 2013 pending trial by the Court. As a result of the Court Order, Shanxi Astrowood is not able to transfer, sale, change register, pledge or perform other similar activities in respect of the Plantation Base. The total fair value less costs to sell of the underlying biological assets amounted to approximately HK$832,042,000 (see note 16(vi)) as at 30 June 2011.

The Company sought a legal opinion in respect of the Writ and the Court Order dated 30 September 2011. The legal advisor opined that the allegations were groundless that (i) the sale of Present Sino's shares to the Company that took place few months afterwards had no bearing to the quantum of the Asset Consideration; (ii) the Contracts were bona fide and (iii) according to bank payment records, the Asset Consideration had been substantially paid to the Plaintiff. The legal advisor concluded that the Court will rebut the Writ.

The directors of the Company are of the opinion that the temporary sealing up of the Plantation Base will not have any material negative impact on the Group as the operation of the Plantation Base is yet to commence and the unwinding of the Court Order is a matter of application procedure involving giving guarantee money to the Court and no obstacle is expected in respect thereof. Upon unwinding the Court Order, Shanxi Astrowood can resume all its rights to the Plantation Base.

In addition, pursuant to the sale and purchase agreement for the acquisition of Present Sino dated 22 June 2010, Mr. Wu Shaoning, the then director and controlling shareholder of Present Sino and Mr. Xue Zhixin, one of the vendors, agreed to indemnify the Company against all and any debts and liabilities of Present Sino Group existing at the completion date.

42. 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) Fair values of biological assets

Management estimates that at the end of the reporting date, the fair values less costs to sell of biological assets were referenced to market prices and professional valuations. Management considers that there are presently no effective financial instruments for hedging against the pricing risks with the underlying agricultural produce. Un-anticipated volatile changes in market prices of the underlying agricultural produce could significantly affect the fair values of these biological assets and result in fair value re-measurement losses in future accounting periods.

The biological assets are valued on the market value basis on the assumption of ready for sale and as part of a going-concern business, any changes in future business plan and pricing strategy could result changes in valuation approach which could significantly affect the fair value measurement of the biological assets.

(iii) 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.

(iv) 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.

42. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

(v) 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 sell or use the pesticides and fertilizers that will generate probable future economic benefits. The determination of the commercial and technological feasibility of the project and the ability to sell or use the pesticides and fertilizers involves management's judgment and estimation. If there are significant changes from previous estimates, any write off of capitalised product development costs would affect the income statement in future periods.

(vi) 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.

(vii) 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.

(viii) 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.

(ix) 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 judgment, 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 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.

(Expressed in Hong Kong dollars)

43. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(i) On 25 July 2011, the 2011 Convertible Bonds issued in 2009 (note 32(a)) with outstanding principal of amount of HK$29,880,000 were redeemed at maturity on 25 July 2011.

(ii) Pursuant to the sale and purchase agreement for the acquisition of Present Sino Group, Mr. Xue Zhixin, one of the vendors, shall pay to the Company an amount of HK$120,000,000 in cash or settle by way of set off against the principal amount of the 2015 Convertible Bonds and/or promissory note in accordance with the profit guarantee provision, as Present Sino Group fail to meet the target net profit for the year ended 30 June 2011.

(iii) Pursuant to the sale and purchase agreement for the acquisition of Fast Base Group, 28,000,000 consideration shares are to be issued as the audited consolidated net profit after tax (as adjusted according to the agreement) of Fast Base Group for the year ended 30 June 2011 meets the target net profit.

44. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 30 JUNE 2011

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 30 June 2011.

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.

HKFRSs (Amendments)	Improvements to HKFRSs (2010)[1]
HKAS 1 (Amendments)	Presentation of items of other comprehensive income[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 19 (Revised 2011)	Employee benefits[3]
HKAS 27 (Revised 2011)	Separate Financial Statements[3]
HKAS 28 (Revised 2011)	Investment in Associates and Joint Ventures[3]
HKFRS 7	Disclosure — Transfer of Financial Assets[6]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 11	Joint Arrangements[3]
HKFRS 12	Disclosure of Interest in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011 as appropriate
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 January 2013
4 Effective for annual periods beginning on or after 1 July 2012
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 July 2011

44. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 30 JUNE 2011 *(Continued)*

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected (see note 23). However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

The amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors anticipate that the application of the amendments to HKAS 12 may have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model.

44. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 30 JUNE 2011 *(Continued)*

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a substantial amount of judgement.

HKFRS 11 replaces HKAS 31 "Interests in joint ventures". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in HKFRS 11 is based on the parties' rights and obligations under the arrangements. In contrast, under HKAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly-controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly-controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting. The Group's jointly-controlled entities are currently accounted for using the equity method of accounting.

Amendment to HK(IFRIC)-Int 14 "Prepayments of a Minimum Funding Requirement" is effective for annual periods beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.

The Group is in the progress of making assessment of what impact of these amendments is expected to be in the period of initial application. 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 consolidated financial statements.