China Agrotech Holdings Limited

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

Annual Report 2006

Contents

Corporate Information

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

Independent Non-executive Directors
Lam Ming Yung
Zhang Shaosheng
Wong Chi Wai, *CPA, FCCA*

Company Secretary
Tong Hing Wah, *CPA, FCCA*

Qualified Accountant
Tong Hing Wah, *CPA, FCCA*

Authorised Representatives
Wu Shaoning
Tong Hing Wah, *CPA, FCCA*

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

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

Auditors
CCIF CPA Limited

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

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

Hong Kong Branch Share Registrar and Transfer Office
Hong Kong Registrars Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

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

Head Office and Principal Place of Business in Hong Kong
Room 2706, 27th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Financial Summary

	Years ended 30 June				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Turnover	349,291	664,092	822,027	1,640,708	**2,286,255**
Cost of sales	(198,367)	(541,847)	(724,755)	(1,525,180)	**(2,122,132)**
Gross profit	150,924	122,245	97,272	115,528	**164,123**
Other revenues	2,012	1,112	630	1,467	**19,414**
Selling and distribution expenses	(54,598)	(47,219)	(33,681)	(30,412)	**(37,618)**
General and administrative expenses	(25,718)	(46,575)	(45,449)	(57,811)	**(61,703)**
Operating profit	72,620	29,563	18,772	28,772	**84,216**
Finance costs	(3,724)	(1,478)	(2,337)	(9,550)	**(17,490)**
Listing expenses	(6,500)	–	–	–	**–**
Profit before taxation	62,396	28,085	16,435	19,222	**66,726**
Taxation	(400)	(1,562)	114	(1,486)	**(6,048)**
Profit for the year	61,996	26,523	16,549	17,736	**60,678**
Attributable to:					
Equity holders of the Company	62,260	27,149	14,882	21,511	**61,627**
Minority interests	(264)	(626)	1,667	(3,775)	**(949)**
	61,996	26,523	16,549	17,736	**60,678**

Financial Summary

	As at 30 June				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total non-current assets	186,129	218,047	217,375	234,772	**229,276**
Total current assets	149,106	246,880	388,109	789,349	**1,208,902**
Total current liabilities	(87,786)	(195,386)	(282,370)	(679,976)	**(1,013,132)**
Net current assets	61,320	51,494	105,739	109,373	**195,770**
Total assets less current liabilities	247,449	269,541	323,114	344,145	**425,046**
Total equity attributable to equity holders of the Company	239,049	266,033	314,838	334,212	**417,762**
Minority interests	(2,271)	(3,508)	(6,391)	(7,116)	**(6,313)**
Non-current liabilities	(6,129)	–	(1,885)	(2,817)	**(971)**

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 2006.

Turnover and Profits

For the year ended 30 June 2006, the consolidated turnover of the Group was approximately HK$2,286,255,000 (2005: HK$1,640,708,000), representing a growth of approximately 39%; and net profit attributable to equity holders of the Company was approximately HK$61,627,000 (2005: HK$21,511,000), representing a growth of approximately 186%.

Business Review

During the year under review, driven by the hard working of all our staff, sales of China Agrotech for the year again reached a record high of HK$2.29 billion, the results of all segments recording satisfactory growth. After three years of exploring and three years of transformation since 1999 for the Group, China Agrotech ultimately established itself as a leading distributor and retailer in the agricultural resources industry in the PRC.

Precise corporate operation approach and strategy adjustments as well as its outstanding corporate operational capability are the keys to China Agrotech's success. During the financial year under review, the Group's agricultural resources circulation (distribution and retail) business achieved further growth. Market coverage and penetration both recorded remarkable growth and the Group's brand name has also been strengthened. Moreover, the Group continued to adjust its strategies in respect of product manufacturing and marketing according to the changes in policies regarding the agriculture industry from time to time, coupled with the rapid development in the circulation segment, manufacturing business recorded remarkable growth in the year. Given the support of the Group's circulation network, it is expected that the manufacturing segment will continue to achieve growth together with the agricultural resources circulation business.

In respect of the agricultural resources circulation business, the Group maintained its continuing business expansion and growth in turnover through the implementation of selective acquisition strategy and strengthening of market position by securing more exclusive products distribution rights from large manufacturers. In terms of geographical location, mergers and acquisitions for the year were mainly in Jiangsu, Hunan and Shandong Provinces. The turnover of trading business increased by 35% to approximately HK$1,585,803,000 for the current financial year. However, the gross profit margin of the agricultural resources trading business was only approximately 4.5%, nevertheless, under the efforts committed by the Group and the realisation of economies of scale, the circulation (trading) business achieved an increase of approximately 278% in operating profits to approximately HK$17,533,000 in the current year. The Group believes the value-added and synergies created by the brandname of the Group's own agricultural resources products and the provision of plant protection technical services and the support of its self-developed computer system (which comprises a supply-chain management system, a centralised finance system and a cash flow management platform) will facilitate a more strengthened and mature circulation business and is expected to bring remarkable profit to the Group in the near future.

Facing challenges and opportunities presented by the WTO, China Agrotech commenced its international trading business in mid 2004, and products exported were mainly non-agricultural resources products. Currently, trading relationship has been established with a number of countries. During the year under review, the product sales realised an total amount of approximately HK$478,035,000, representing a growth of approximately 34%, establishing a solid foundation for China Agrotech's agricultural resources business to enter the international market in the future.

Chairman's Statement

Corporate Strategies and Prospects

As a modern agricultural resources enterprise committed to achieving triple win in terms of production, circulation and agricultural producer, China Agrotech has established itself as a leading major agricultural resource chain group in the agricultural resources industry by integrating upstream quality product resources, core end-user network and excellent industry management and technical professionals.

With circulation as its core, China Agrotech focuses on the fertilisers and pesticides end-user markets, and will continue to centralise purchases so as to obtain more market competitive pricing from the suppliers. It will also implement scientific logistics and capital management, enhance customers' recognition of the Group's brandname and improve its brandname awareness, as well as establish alliances with upstream reputable production enterprises to lower operating costs and enhance its sales network. Together with the added values and complement to the Group's core circulation business from products of its own brandname and plant protection services, China Agrotech will be able to leverage on its leading edges in terms of its own brand name, capital and management to maximise value of its resources, translating into the unique core competitiveness of China Agrotech.

Looking back into the past, China Agrotech has established a distinctive leading position in the PRC agricultural resources industry, leading China Agrotech onto the way to continued expansion and progress. China Agrotech's networks in Shandong, Hunan and Jiangsu Provinces and the development of international trading are the crucial elements for the expansion of its industry chain, as well as epitome of the business growth of China Agrotech. In the coming year, China Agrotech will generate hope, vitality and energy for the PRC agricultural resources chain industry.

Appreciation

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

Wu Shaoning
Chairman

Hong Kong, 24 October 2006

Management Discussion and Analysis

Overall Results

For the year ended 30 June 2006, the Group's consolidated turnover was approximately HK$2,286,255,000 (2005: HK$1,640,708,000) and net profit attributable to equity holders of the Company was approximately HK$61,627,000 (2005: HK$21,511,000), representing a growth of approximately 39% and 186% respectively as compared to those of the last financial year.

During the year ended 30 June 2006, the Group's agricultural resources distribution business achieved remarkable growth as a result of further expansion of market coverage and strengthening of its market position in Jiangsu, Hunan and Shangdong provinces. Besides, the business of plant protection technical services maintained a rapid growth during the year. Moreover, the turnover from manufacturing operation achieved a 116% growth as a result of increase in sale of compound fertiliser products previously developed and the commencement of operation of a new factory in Jiangxi for producing fertilisers.

As the turnover from agricultural resources trading business further boost up while the gross profit margin is only approximately 4.5%, which is relatively much lower than the average gross profit margin level of the manufacturing business of 32%, and that the turnover of the trading business increased by approximately 35% as compared to that of the last financial year and accounted for approximately 69% (2005: approximately 72%) of the Group's consolidated turnover, together with the contribution of trading of non-agricultural resources products during the year with a turnover of approximately HK$478,035,000 and gross profit margin of only 3%, the overall gross profit margin of the Group was averaged to approximately 7% (2005: approximately 7%). Nevertheless, the overall net profit attributable to equity holders of the Company increased by 186% as compared with that of the last financial year, which is contributed by the satisfactory improvement of various business sectors of the Group in the current year.

A summary of the turnover, gross profit, gross profit margin and segment results by scope of business, say, trading of agricultural resources products ("trading operation"), manufacturing and selling of agricultural resources products (PGRs, pesticides and fertilisers) ("manufacturing operation"), provision of plant protection technical services ("consultancy operation"), and trading of non-agricultural resources products ("non-agricultural resources trading operation") is as follows:

	Trading operation		Manufacturing operation		Consultancy operation		Non-agricultural resources trading operation		Total	
	2006 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	2005 *HK$'000* (restated)
Turnover	**1,585,803**	1,177,315	**204,649**	94,587	**17,768**	13,139	**478,035**	355,667	**2,286,255**	1,640,708
Gross profit	**70,669**	59,927	**65,997**	40,634	**13,607**	11,176	**13,850**	3,791	**164,123**	115,528
Gross profit margin	**4.5%**	5%	**32%**	43%	**77%**	85%	**3%**	1%	**7%**	7%
Segment results	**17,533**	4,644	**41,584**	20,363	**14,118**	5,747	**6,239**	1,334	**79,474**	32,088

Management Discussion and Analysis

Agricultural Resources Trading Business

During the year under review, the Group's agricultural resources trading business further expanded and penetrated into its existing markets and reached other new markets. Currently, the Group's agricultural resources trading business covered eight provinces, namely, Fujian, Shanxi, Jiangxi, Hunan, Jiangsu, Hainan, Hubei and Shandong, as well as Shanghai city.

During the year, the Group acquired several agricultural resources trading business from local famous agricultural resources enterprises, mainly in Jiangsu, Hunan and Shangdong provinces, so as to further strengthen its market position and coverage.

Moreover, the Group's joint venture entity, which was formed with a provincial level large agricultural resources enterprise in Hunan province achieved a remarkable growth during the year ended 30 June 2006. The joint venture entity contributed a turnover and operating profit of approximately HK$189 million (2005: HK$85 million) and HK$4 million (2005: HK$4 million) respectively to the Group.

For the year ended 30 June 2006, turnover from the trading business amounted to approximately HK$1,585,803,000 (2005: HK$1,177,315,000), representing an increase of approximately 35% from the last financial year and contributed to approximately 69% (2005: 72%) of the consolidated turnover of the Group, demonstrating the continued rapid growth and expansion of the trading business and its role as a core business to the Group.

The trading business is quantity-driven with a relatively low gross profit margin of approximately 4.5% and therefore, requires a considerable high turnover level in order to generate adequate gross profit to cover promotion and advertising expenses and amortisation of development cost of computer system which comprises supply chain management system, cash flow management system and financial information system. Nevertheless, as a result of the continued expansion of the trading business in the financial year under review and the consequent realisation of the effect of economy of scale, the business recorded a remarkable turnover of approximately HK$1,585,803,000 and achieved an operating profit of approximately HK$17,533,000 (2005: HK$4,644,000), an increase of approximately 35% and 278% respectively.

In the years to come, the Group believes the trading business in the existing provinces will be more strengthened, the customer networks will become more mature and enlarged and the synergetic effect will be more pronounced. In the future, the Group will identify suitable provinces and regions for further business expansion and market penetration; secure more product exclusive distribution rights from local and overseas suppliers; and achieve further synergetic effect from the provision of plant protection technical services to customers. As such, the trading business will further contribute to a remarkable profit for the Group in the years to come.

Management Discussion and Analysis

Agricultural Resources Production Business

In the fertilisers production front, the phosphorous fertiliser production plant in Hubei province contributed a turnover of approximately HK$22.6 million (2005: HK$17.1 million) during the year. The Group's compound fertiliser production base which was acquired in the last year and located in Fujian province also contributed a turnover and operating profit of approximately HK$57.6 million (2005: HK$13.4 million) and HK$13.8 million (2005: HK$2.5 million) respectively to the Group during the year. The Group also established a compound fertiliser manufacturing base in Jiangxi in the last year, which contributed a turnover and operating profit of approximately 53.9 million and 1.3 million respectively to the Group during the year. The fertilisers manufacturing business is expected to further improve in the back of the Group's circulation platform.

In respect of pesticides production, apart from the PGR and BtA which contributed a turnover of approximately HK$53.5 million and HK$21.8 million during the year, the Group commenced, since March 2005, the production and launch of a majority of the 28 newly developed pesticides, germicide and miticide acquired in the prior year, which contributed a turnover and operating profit (excluding amortisation of acquisition cost of the intellectual property) of approximately HK$14.1 million and HK$3.2 million respectively to the Group for the year. It is expected that the sales of these new pesticides will be further improved in the coming years.

For PGR, the turnover and operating profit were approximately HK$53.5 million (2005: HK$52.9 million) and HK$31.8 million (2005: HK$24.6 million) respectively, representing an increase of approximately 1% and 29% respectively as compared to the last financial year. The increase was mainly due to the change of production and sales strategies for different types of PGR, which proved to be effective, though with an overall decrease in production scale.

For the biological pesticide (BtA), it contributed to a turnover and operation profit (excluding amortisation of acquisition cost of the intellectual property) of approximately HK$21.8 million (2005: HK$10.5 million) and HK$4.3 million (2005: HK$1.3 million) respectively for the year ended 30 June 2006, such increase in result is due to the same reason as that for PGR.

It is expected that the PGR and BtA sales will be steadily improved upon the stabilisation of the effect of adjustment of sales and production strategy in the upcoming year.

Plant Protection Technical Services

The Group's plant protection technical services recorded a service income of approximately HK$17,768,000 for the year ended 30 June 2006 (2005: HK$13,139,000), an increase of approximately 35% and contributed an operating profit of approximately HK$14,118,000 (2005: HK$5,747,000), demonstrating the rapid growth of the business, in the back of the commencement of wide application of the distant diagnose system for plant diseases and pests of agriculture produces since the last year.

Non-agricultural Resources Products Trading Business

In order to develop the Group into an international enterprise in face of China's accession in the WTO, and to minimise its business risk; as well as to increase the Group's cash flow generating capability so as to obtain better bank financing, the Group commenced export of non-agricultural resources products since the last year. This business also allows the Group to gain import and export experience for future trading of agricultural resources products in the international markets.

Such business contributed a turnover of approximately HK$478,035,000 (2005: HK$355,667,000) with a gross profit margin of approximately 3% (2005: 1%).

Management Discussion and Analysis

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 2006, the cash and bank balances and restricted bank deposits of approximately HK$355.7 million included approximately HK$8.9 million which was denominated in Hong Kong dollars, approximately HK$341.4 million which was denominated in Renminbi, and approximately HK$5.4 million which was denominated in US dollars.

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

Borrowings and banking facilities

As at 30 June 2006, the Group had bank borrowings of approximately HK$201.5 million (denominated in Renminbi), which beared interest at rates ranging from approximately 4.6% to 8.8% per annum, of which approximately HK$2.9 million, HK$7.4 million, HK$1.9 million, 9.7 million and HK$179.6 million were secured by certain inventory of the Group, certain investment property of a joint venture entity, certain property, plant and equipment of the Group, corporate guarantee provided by a joint venture entity and corporate guarantee provided by certain subsidiaries, respectively. As at 30 June 2006, the Group had bills payable of approximately HK$556.3 million which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of approximately HK$209.9 million which was also denominated in Renminbi.

As at 30 June 2006, the Group maintained a gearing ratio of approximately 48%. This is based on the division of bank borrowings by total equity attributable to equity holders of the Company as at 30 June 2006. The Directors considered that the gearing ratio as at 30 June 2006 was healthy, taking into account of the nature and scale of operations of the Group.

Commitments

As at 30 June 2006, the Group had no significant outstanding contracted capital and other commitments. As at 30 June 2006, the Group had operating lease commitments of approximately HK$5,973,000.

Contingent liabilities

As at 30 June 2006, the Group had no material contingent liabilities.

Remuneration Policies and Share Option Scheme

The Group incurred total salaries and other remunerations (excluding employee share options compensation expenses) of approximately HK$17.8 million with an average number of about 1,000 staff during the year ended 30 June 2006.

Remuneration packages comprised salary, mandatory provident fund and year-end bonus based on individual merits. A share option scheme (the "Scheme") was adopted by the Company pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31 December 2001. During the year ended 30 June 2006, options in respect of 56,500,000 Shares of the Company were granted to the relevant participants under the Scheme (2005: no option was granted).

Biographical Details of Directors and Senior Management

Executive Directors

Mr. Wu Shaoning

aged 41, is the Chairman, chief executive officer and founder of the Group. He graduated from the University of Xiamen with a bachelor's degree in politics and economics. Thereafter, he attended the Hong Kong Macau Economics Study Programme at the University of Hong Kong for one year and obtained a master's degree in economics from the University of Xiamen. Mr. Wu has over 14 years of experience in trading business and the agricultural chemicals industry in Mainland China. Mr. Wu has been nominated as the director of 中國農作物化控專業委員會 (the Professional Crop Chemical Control Committee of China) in 1999. He was also elected as the deputy chairman of 福建省農業產業化龍頭企業協會 (the Fujian Agricultural Industrialisation Association) in 2004. Mr. Wu is responsible for the overall management and operation of the Group, as well as its strategic planning and business development. Mr. Wu has not held any directorships in any listed companies in the last three years. He entered into a service agreement with the Company for a term of ten years commencing on 15th 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. Wu shall be entitled to a remuneration of HK$600,000 per annum during his term of appointment which is determined by the Board by reference to his duties and responsibilities with the Company and the market rate, and will be reviewed by the Board from time to time. Further details of remuneration of Mr. Wu are set out in note 10 to the financial statements. Mr. Wu is interested in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance as specified in the section head "Directors' and Chief Executives' Interests in Securities" disclosed in the Directors' Report. Mr. Wu is director of some of the subsidiaries of the Company and also the controlling shareholder of the Company. Save as disclosed above, he does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company. Save as disclosed above, there is no other matter that should be brought to the attention of the shareholders of the Company nor any information to be disclosed pursuant to any of the requirements of Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

Mr. Yang Zhuoya

aged 41, is the Managing Director and co-founder of the Group. He holds a doctorate degree in agricultural chemistry and plant nutrition. He has been nominated as the standing director of 福建省土壤肥料學會 (Soil and Fertiliser Academy of Fujian Province) for year 2000. Mr. Yang joined the Group in 1998 and is primarily responsible for the Group's product research and development, as well as overseeing its production operations. Mr. Yang has not held any directorships in any listed companies in the last three years. He entered into a service agreement with the Company for a term of three years commencing on 15th 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. Yang shall be entitled to a remuneration of HK$360,000 per annum during his term of appointment which is determined by the Board by reference to his duties and responsibilities with the Company and the market rate, and will be reviewed by the Board from time to time. Further details of remuneration of Mr. Yang are set out in note 10 to the financial statements. Mr. Yang is interested in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance as specified in the section head "Directors' and Chief Executives' Interests in Securities" disclosed in the Directors' Report. Mr. Yang is director of some of the subsidiaries of the Company. He does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company. Save as disclosed above, there is no other matter that should be brought to the attention of the shareholders of the Company nor any information to be disclosed pursuant to any of the requirements of Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

Biographical Details of Directors and Senior Management

Independent Non-executive Directors

Mr. Lam Ming Yung

aged 42, is an Independent Non-executive Director and the Chairman of the Audit Committee. He graduated from the School of Law of Shanghai Eastern Chinese College of Politics and Jurisprudence in 1986 and was awarded the degree of bachelor of law. Mr. Lam started practising law in 1987 in Fujian Province in Mainland China, and moved to Hong Kong in mid-1993. He was registered as a foreign lawyer with the Hong Kong Law Society in 1995, and is now practicing as a senior legal consultant of PRC Corporate Securities in the Hong Kong office of Sidley Austin Brown & Wood.

Mr. Zhang Shaosheng

aged 55, is an Independent Non-executive Director and a member of the Audit Committee. He is a professor of the College of Plant Protection of Fujian Agriculture and Forestry University. Mr. Zhang graduated from Fujian Agricultural College with a bachelor's degree in agriculture specialized in plant protection in 1975 and has 31 years of experience in the teaching of plant protection.

Mr. Wong Chi Wai

aged 35, is an Independent Non-executive Director and a member of the Audit Committee. He graduated from the Hong Kong Polytechnic University with a bachelor degree in accountancy in 1994. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. He has over 12 years of experience in auditing, accounting and financial management. Mr. Wong currently holds a senior position in a bank in Hong Kong.

Senior Management

Mr. Tong Hing Wah, Raymond

aged 35, is the chief financial officer and company secretary of the Group. He graduated from the Hong Kong Polytechnic University with a bachelor degree in accountancy. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. He has over 13 years of experience in auditing, accounting and financial management. Mr. Tong joined the Group in 1999 and is primarily responsible for the Company's corporate finance, financial reporting and regulatory compliance.

Ms. Yeh Jing Ping

aged 55, is the finance supervisor of the Group. She graduated from Fuzhou University with a bachelor degree in commerce and is also a senior qualified accountant in Mainland China. She has over 22 years' experience in finance and accounting. Ms. Yeh joined the Group in June 1998 and is responsible for all finance and accounting matters of the Group's Mainland China subsidiaries.

Mr. Zhao Bo Jian

aged 37, is the business development manager of the Group. He graduated from Central China Normal University with a degree in arts. Mr. Zhao has over 14 years of experience in brand name management and business development. He joined the Group in 2002 and is responsible for brand name management and business development of the Group's agricultural resources trading business.

Biographical Details of Directors and Senior Management

Ms. Chen Xiao Fang

aged 42, is the international trading manager of the Group. She graduated from Suzhou University (蘇州大學) with a bachelor degree in silk textile engineering design (絲織工程設計). Thereafter, she studied business administration at The University of International Business and Economics (中國對外經貿大學) and obtained a master degree. Ms. Chen is also a qualified engineer and management consultant in Mainland China, and has over 22 years of experience in information management, human resources management, marketing strategies and international trading. She joined the Group in March 2004.

Mr. Wu Rong Song

aged 33, is the manager of the Group's capital management centre. He graduated from the School of Business and Economics of Fujian Agricultural University（福建農業大學經貿學院）with a bachelor degree in monetary banking. Mr. Wu is also a qualified economist in Mainland China and has over 13 years of experience in financial management. He joined the Group in March 2003.

Mr. Huang Zhong Geng

aged 39, is the production manager of the Group. He graduated from Fuzhou University（福州大學） with a bachelor degree in chemical engineering (precise chemical engineering). Thereafter, he studied at Heriot-Watt University of the United Kingdom as a part-time student for two years where he obtained a master degree in business administration. He is a senior qualified engineer in Mainland China and has over 18 years of experience in chemical engineering design and technical development. He joined the Group in August 2004.

Report of the Directors

The Directors have pleasure in presenting the annual report and the audited accounts of China Agrotech Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 30 June 2006.

Principal Activities

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

An analysis of the principal activities and geographical locations of the operations of the Group for the year ended 30 June 2006 is set out in Note 7 to the accounts.

Results and Appropriations

The results of the Group for the year ended 30 June 2006 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.

The Directors have resolved not to recommend the payment of any final dividend for the year ended 30 June 2006 (2005: Nil) and recommend that the retained profit of approximately HK$210,853,000 as at 30 June 2006 be carried forward.

Share Capital

Details of the movements in the share capital of the Company are set out in Note 34 to the accounts.

Reserves and Retained Profit

Details of the movements in the reserves of the Group and of the Company during the year are set out in the statement of change in equity and Note 36 to the accounts respectively.

As at 30 June 2006, the Company's reserve available for distribution to shareholders amounted to approximately HK$84,258,000 which is computed in accordance with the Companies Law (Amended) of the Cayman Islands and the Company's Articles of Association. This includes the Company's share premium of approximately HK$98,550,000 and contributed surplus of approximately HK$11,527,000, less accumulated losses of approximately HK$25,819,000, 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 20 to the accounts.

Subsidiaries

Details of the Company's subsidiaries as at 30 June 2006 are set out in Note 23 to the accounts.

Report of the Directors

Pension Schemes

Details of the Group's pension schemes for the year ended 30 June 2006 are set out in Note 13 to the accounts.

Connected Transactions

During the year ended 30 June 2006, there was no transaction which needed to be disclosed as connected transaction in accordance with the requirements of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 3 and 4.

Directors

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

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

Independent Non-executive Directors:

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

In accordance with Article 87 of the Company's Articles of Association, Mr. Wu Shaoning and Mr. Yang Zhuoya will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' Service Agreements

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

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

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

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

Mr. Zhang Shaosheng and Mr. Wong Chi Wai, both being the Independent Non-executive Directors of the Company, each entered into a letter of appointment with the Company for continuously appointed for another one-year term expiring on 9 August 2007 and 26 September 2007 respectively unless and until terminated by either party giving to the other not less than three months' notice in writing.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Biographical Details of Directors and Senior Management

Biographical details of Directors and senior management of the Group are set out on pages 11 to 13.

Directors' and Chief Executives' Interests in Securities

As at 30 June 2006, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Listing Rules were as follows:

Long positions in shares of the Company

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

Long positions in underlying shares of the Company

Share Options in the Company

Name of Director	Date of grant	Exercise price *HK$*	Exercisable period	No. of shares in respect of options outstanding as at 30 June 2006
Mr. Wu Shaoning	01/12/2003	0.55	01/01/2004 – 30/12/2011	3,500,000
	16/05/2006	0.455	15/09/2006 – 30/12/2011	700,000
Mr. Yang Zhuoya	01/12/2003	0.55	01/01/2004 – 30/12/2011	3,500,000
	16/05/2006	0.455	15/09/2006 – 30/12/2011	700,000

Save as disclosed above, none of the directors, chief executives or their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are recorded in the register required to be kept by the Company under Section 352 of the SFO or which are notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests in Securities

As at 30 June 2006, so far as is known to the Directors, the following parties (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of ordinary shares	Approximate percentage of issued share capital
Atlantis Investment Management Ltd. A/C Atlantis China Fund	Investment manager	25,250,000	5.99%

Directors' Rights to Acquire Shares or Debt Securities

Other than as disclosed under the headings "Directors' and Chief Executives' Interests in Securities" above and "Share Option Scheme" below, at no time during the year was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or Chief Executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' and Controlling Shareholders' Interests in Contracts

There was no contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted at the end of the year or at any time during the year, and in which a Director had, whether directly or indirectly, a material interest, nor there was any contract of significance in relation to the Company's business between the Company or any of the Company's subsidiaries and a controlling shareholder or any of its subsidiaries.

Share Option Scheme

A share option scheme (the "Scheme") was adopted pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31 December 2001 for the primary purpose of providing incentives or rewards to selected participants, and will expire on 30 December 2011. Under the Scheme, the Company may grant options to any participant ("Participant") which includes (i) any employee or proposed employee (whether full time or part time) of the Company, any of its subsidiaries or any entity in which the Group holds an equity interest ("Invested Entity"), including any Executive Director of the Company, any of such subsidiaries or any Invested Entity; (ii) any Non-executive Directors (including Independent Non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member 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.

Report of the Directors

The total number of shares in respect of which options may be granted under the Scheme must not exceed 10% of the shares of the Company in issue as at the adoption date ("Scheme Mandate"). Pursuant to a resolution passed at the extraordinary general meeting of the Company held on 1 March 2006, a refreshment of the Scheme Mandate was approved. The total number of shares to be allotted and issued pursuant to the grant or exercise of the options under the Scheme shall not exceed 10% of the total number of shares in issue as at 1 March 2006. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to a Participant in any 12-month period must not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of the individual limit must be subject to shareholders' approval.

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

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

	Number of shares in respect of options						
Name or category of participant	Balance as at 1 July 2005	Granted during the year	Exercised/ Lapsed/ Cancelled during the year	Outstanding as at 30 June 2006	Date of grant	Exercisable period	Exercise price per share *HK$*
Directors:							
Mr. Wu Shaoning	3,500,000	–	–	3,500,000	01/12/2003	01/01/2004 – 30/12/2011	0.55
	–	700,000	–	700,000	16/05/2006	15/09/2006 – 30/12/2011	0.455
Mr. Yang Zhuoya	3,500,000	–	–	3,500,000	01/12/2003	01/01/2004 – 30/12/2011	0.55
	–	700,000	–	700,000	16/05/2006	15/09/2006 – 30/12/2011	0.455
Employees:							
In aggregate	23,000,000	–	17,500,000	5,500,000	01/12/2003	01/01/2004 – 30/12/2011	0.55
	–	11,000,000	–	11,000,000	23/12/2005	01/01/2006 – 30/12/2011	0.282
	–	44,100,000	–	44,100,000	16/05/2006	15/09/2006 – 30/12/2011	0.455
Total	30,000,000	56,500,000	17,500,000	69,000,000			

Notes:

1. Since no option has been exercised during the year ended 30 June 2006, the weighted average closing price immediately before the exercise date (if exercised) is not applicable.

2. Options in respect of 17,500,000 shares were lapsed during the year upon termination of employment of the relevant employees.

3. The closing prices immediately before the date of options granted on 23 December 2005 and 16 May 2006 were HK$0.27 and HK$0.42 respectively.

4. Details of the fair values of options granted on 23 December 2005 and 16 May 2006 are disclosed in Note 35 to the accounts.

Major Suppliers and Customers

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

Competing Interests

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

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

The Company did not redeem any of its listed securities during the year ended 30 June 2006. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year.

Pre-emptive Rights

No pre-emptive rights exist under the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard set out in the Model Code regarding securities transactions by directors during the year ended 30 June 2006.

Independence of Independent Non-executive Directors

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

Public Float

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

Report of the Directors

Audit Committee

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

Remuneration Committee

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

Subsequent Event

No significant event occurred subsequent to the balance sheet date as of 30 June 2006 and up to the date of this report.

Auditors

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

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

On behalf of the Board
Wu Shaoning
Chairman

Hong Kong, 24 October 2006

Corporate Governance Report

Corporate Governance Practices

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

The Board considers that the Company has complied throughout the year ended 30 June 2006 with the applicable provisions of the Code on Corporate Government Practices as set out in Appendix 14 of the Listing Rules ("CG Code"), except that (i) there is no division of roles of chairman and chief executive officer that both offices are held by Mr. Wu Shaoning; and (ii) one of the Independent Non-executive Directors is not appointed for specific terms.

The Board Composition and Board Practices

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

As at 30 June 2006, the Board comprises five Directors, of whom two are executive Directors, namely Mr. Wu Shaoning (Chairman and Chief Executive Officer) and Mr. Yang Zhuoya, and three are Independent Non-executive Directors, namely Mr. Lam Ming Yung, Mr. Zhang Shaosheng and Mr. Wong Chi Wai.

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

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

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

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

During the year ended 30 June 2006, four regular Board meetings have been held. The attendance of each Director, on named basis and by category, at Board meetings and Board committee meetings during the year is set out below:

	Number of meeting attended/ Number of meeting held		
Directors	Board	Remuneration Committee	Audit Committee
Executive Directors			
Mr. Wu Shaoning (Chairman and the Chief Executive Officer)	9/9	1/1	–
Mr. Yang Zhuoya	9/9	–	–
Independent Non-executive Directors			
Mr. Lam Ming Yung	7/9	–	2/3
Mr. Zhang Shaosheng	7/9	1/1	3/3
Mr. Wong Chi Wai	7/9	1/1	3/3

Directors can attend meetings in person or through telephone pursuant to article 116(2) of the article 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 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.

Responsibilities of Directors

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

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

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

Directors' Securities Transactions

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors (the "Model Code"). 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 2006.

Corporate Governance Report

Chairman and Chief Executive Officer

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

Committees of the Board

Nomination Committee

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

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

During the year and prior to the date of this report, there have no changes of the Directors.

In accordance with the Company's 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. Yang Zhuoya will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-elections. The Board recommended the re-appointment of the Directors standing for the aforesaid re-election.

Remuneration Committee

The Remuneration Committee was established on 1 July 2005 with written terms of reference in compliance of the code provision in B.1 of the CG Code. The terms of reference of the Remuneration Committee are available from the Company Secretary at any time. The Remuneration Committee currently comprises an Executive Director, namely, Mr. Wu Shaoning and two Independent Non-executive Directors, namely Mr. Zhang Shaosheng and Mr. Wong Chi Wai. Mr. Wong Chi Wai is the Chairman of the 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/her 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 35 to the financial statements of this annual report.

The Remuneration Committee meets at least once a year. During the year, the Remuneration Committee has held a meeting on 16 May 2006 for the proposed grant of options to the eligible employees under the Scheme.

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 report above.

Audit Committee

The Audit Committee currently comprises of three members, all of whom are Independent Non-executive Directors. The members are Mr. Lam Ming Yung (the chairman of the committee), Mr. Zhang Shaosheng and Mr. Wong Chi Wai, all of whom are not involved in the day-to-day management of the Company. In accordance with the requirements of the Code, the terms of reference of the Audit Committee were revised on 3 July 2005 in terms substantially the same as the provisions set out in the CG Code. The terms of reference of the Audit Committee are available from the Company Secretary at any time.

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

The scope of such examinations and reviews include finance, operations, regulatory compliance and risk management. Each member of the Audit Committee has unrestricted access to the external auditors and all senior management of the Group in order to discharge its responsibilities. Save as disclosed above, the Audit Committee has reviewed the audited financial statements of the Company for the year ended 30 June 2006.

During the year ended 30 June 2006, the Audit Committee met two times together with the chief financial officer of the Company as well as with the external auditors. Please refer to the table set out in the section "The Board Composition and Board Practices" of this report for the attendance record of individual Audit Committee members.

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

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of accounts for each financial period which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 30 June 2006, 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 CPA Limited ("CCIF") has been appointed as the auditors of the Company for the year ended 30 June 2006 by shareholders at the annual general meeting held on 2 December 2005 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 2006 have been audited by CCIF.

An amount of HK$770,000 (2005: HK$812,000) was charged to the financial statements of the Company and subsidiaries for the year ended 30 June 2006 for CCIF's statutory audit. No other non-audit service was provided by CCIF for the Company during the two years ended 30 June 2006.

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 unauthorized 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 2006, 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.

Auditors' Report

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

AUDITORS' REPORT TO THE SHAREHOLDERS OF CHINA AGROTECH HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 28 to 84 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion 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.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2006 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Chan Wai Dune, Charles
Practising Certificate Number P00712

Hong Kong, 24 October 2006

Consolidated Income Statement

For the year ended 30 June 2006

	Note	2006 *HK$'000*	2005 *HK$'000* (restated)
Turnover	*6*	**2,286,255**	1,640,708
Cost of sales		**(2,122,132)**	(1,525,180)
Gross profit		**164,123**	115,528
Other revenues	*6*	**19,414**	1,467
Selling and distribution expenses		**(37,618)**	(30,412)
General and administrative expenses		**(61,703)**	(57,811)
Profit from operations	*8*	**84,216**	28,772
Finance costs	*9*	**(17,490)**	(9,550)
Profit before taxation		**66,726**	19,222
Taxation	*14*	**(6,048)**	(1,486)
Profit for the year		**60,678**	17,736
Attributable to			
– Equity holders of the Company		**61,627**	21,511
– Minority interests		**(949)**	(3,775)
		60,678	17,736
Earnings per share	*16*		
– Basic		**14.62 cents**	5.1 cents
– Diluted		**14.57 cents**	N/A

The notes on pages 35 to 84 from an integral part of these financial statements.

Consolidated Balance Sheet

As at 30 June 2006

	Note	2006 *HK$'000*	2005 *HK$'000* (restated)
NON CURRENT ASSETS			
Goodwill	*18*	**79,653**	60,080
System development costs	*17*	**11,909**	20,160
Other Intangible assets	*19*	**58,185**	73,632
Property, plant and equipment	*20*	**40,865**	57,186
Investment property	*21*	**25,834**	–
Lease premium for land	*26*	**12,830**	12,740
Prepayments and deposits	*22*	**–**	10,974
		229,276	234,772
CURRENT ASSETS			
Inventories	*25*	**172,729**	100,960
Current portion of lease premium for land	*26*	**340**	526
Other receivables, deposits and prepayments	*27*	**461,185**	352,237
Trade and bills receivables	*28*	**218,363**	168,049
Financial assets at fair value through profit or loss		**631**	–
Restricted bank deposits	*30*	**209,852**	114,209
Bank balances and cash	*30*	**145,802**	53,368
Total current assets		**1,208,902**	789,349
CURRENT LIABILITIES			
Current position of interest-bearing and secured loan	*31*	**(200,559)**	(127,084)
Trade and bills payable	*32*	**(674,462)**	(432,023)
Accruals and other payables	*33*	**(127,819)**	(113,041)
Due to a director	*29*	**(332)**	(1,087)
Taxation payable		**(9,960)**	(6,741)
Total current liabilities		**(1,013,132)**	(679,976)
Net current assets		**195,770**	109,373
Total assets less current liabilities		**425,046**	344,145
Non-current liabilities			
Interest-bearing and secured bank loans	*31*	**(971)**	(2,817)
NET ASSETS		**424,075**	341,328
CAPITAL AND RESERVES			
Share capital	*34*	**42,157**	42,157
Reserves		**375,605**	292,055
Total equity attributable to equity holders of the Company		**417,762**	334,212
Minority interests		**6,313**	7,116
TOTAL EQUITY		**424,075**	341,328

Approved and authorised for issue by the board of directors on 24 October 2006.

On behalf of the board

Wu Shaoning
Director

Yang Zhuoya
Director

The notes on pages 35 to 84 from an integral part of these financial statements.

Balance Sheet

As at 30 June 2006

	Note	2006 HK$'000	2005 HK$'000
Interests in subsidiaries	23	**130,058**	131,745
Current assets			
Other receivables, deposits and prepayments	27	**72**	72
Current liabilities			
Due to a director		**–**	(90)
Accruals and other payable	33	**(946)**	(711)
		(946)	(801)
Net current liabilities		**(874)**	(729)
Net assets		**129,184**	131,016
CAPITAL AND RESERVES			
Share capital	34	**42,157**	42,157
Reserves	36	**87,027**	88,859
		129,184	131,016

Approved and authorised for issue by the board of directors on 24 October 2006.

On behalf of the board

Wu Shaoning
Director

Yang Zhuoya
Director

The notes on pages 35 to 84 from an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2006

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000 (Note 36(a))	Statutory reserve HK$'000 (Note 36(b))	Capital reserve HK$'000 (Note 36(c))	Share option reserve HK$'000	Property revaluation reserve HK$'000 (Note 36(e))	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
Group											
At 1 July 2004	42,157	98,550	8,006	1,188	–	–	122	164,815	314,838	6,391	321,229
Exchange alignment on translation of the financial statements of subsidiaries		–	–	–	–	–	(2,137)	–	(2,137)	–	(2,137)
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	5,470	5,470
Acquisition of minority interest		–	–	–	–	–	–	–	–	(970)	(970)
Net profit for the year		–	–	–	–	–	–	21,511	21,511	(3,775)	17,736
At 30 June 2005	42,157	98,550	8,006	1,188	–	–	(2,015)	186,326	334,212	7,116	341,328
At 1 July 2005	42,157	98,550	8,006	1,188	–	–	(2,015)	186,326	334,212	7,116	341,328
Exchange alignment on translation of the financial statements of subsidiaries	–	–	–	–	–	–	11,321	–	11,321	–	11,321
Transfer of reserves	–	–	37,100	–	–	–	–	(37,100)	–	–	–
Revaluation of investment property upon change in use	–	–	–	–	–	7,833	–	–	7,833	–	7,833
Equity-settled share-based payment	–	–	–	–	2,769	–	–	–	2,769	–	2,769
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	281	281
Acquisition of minority interest	–	–	–	–	–	–	–	–	–	(135)	(135)
Net profit for the year	–	–	–	–	–	–	–	61,627	61,627	(949)	60,678
At 30 June 2006	42,157	98,550	45,106	1,188	2,769	7,833	9,306	210,853	417,762	6,313	424,075

The notes on pages 35 to 84 from an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
Operating activities			
Profit before taxation		66,726	19,222
Adjustments for:			
Interest income		(12,184)	(1,247)
Interest expenses		17,490	9,550
Depreciation of property, plant and equipment		10,160	11,331
Loss on disposal of property, plant and equipment		72	27
Amortisation of lease premium for land		539	210
Amortisation of system development costs		8,846	8,655
Amortisation of intangible assets		17,761	14,937
Impairment loss of goodwill		3,330	15,164
Equity-settled share-based payment		2,769	–
Gain on revaluation of investment properties		(818)	–
Operating profit before changes in working capital		114,691	77,849
Increase in inventories		(68,358)	(41,346)
Increase in other receivables, prepayments and deposits		(97,047)	(216,143)
Decrease in due from directors		–	613
Increase in trade and bills receivables		(44,636)	(88,219)
Increase in trade and bills payable		227,843	232,479
Decrease/(increase) in accrual and other payables		(6,360)	72,777
Cash generated from operations		126,133	38,010
Mainland China enterprise income tax paid		(342)	(437)
Net cash generated from operating activities		125,791	37,573
Investing activities			
Interest received		12,184	1,247
Purchase of businesses	*(a)*	(14,770)	(32,152)
Payment for technical know-how		–	(5,635)
Purchase of property, plant and equipment		(4,578)	(20,266)
Proceeds from sale of property, plant and equipment		372	39
Payment for short-term investments		(631)	–
Payment of deposits for purchase of property, plant and equipment		–	(4,870)
Payment for acquisition of businesses		–	(6,104)
Payment for acquisition of additional interests in a subsidiary		(135)	(971)
Net cash used in investing activities		(7,558)	(68,712)

Consolidated Cash Flow Statement

For the year ended 30 June 2006

	Note	2006 *HK$'000*	2005 *HK$'000* (Restated)
Financing activities			
Capital contribution from minority shareholders of subsidiaries		**281**	5,470
Increase in advances from minority shareholders of subsidiaries		**15,041**	9,160
(Decrease)/increase in advances from a director		**(792)**	967
New bank loans raised		**211,588**	129,901
Repayment of bank loans		**(144,484)**	(47,794)
Increase in restricted bank deposits		**(99,502)**	(48,317)
Interest expenses		**(17,490)**	(9,550)
Net cash from financing activities	*(b)*	**(35,358)**	39,873
Net increase in cash and cash equivalents		**82,875**	8,698
Cash and cash equivalents at beginning of year		**53,368**	46,066
Effect of foreign exchange rate changes		**9,559**	(1,396)
Cash and cash equivalents at end of year		**145,802**	53,368
Analysis of the balances of cash and cash equivalents			
Bank balances and cash	*30*	**145,802**	53,368

Consolidated Cash Flow Statement

For the year ended 30 June 2006

Note:

(a) Purchase of businesses

Analysis of the net cash outflow in respect of the acquisition of the agricultural resources businesses:

	2006 *HK$'000*	2005 *HK$'000*
Estimated fair value of the net assets of the agricultural resources trading businesses as at the dates of acquisition	–	–
Goodwill on acquisitions *(Note 18)*	20,874	32,152
Prepayment for purchase of businesses	–	12,500
Cash consideration	20,874	44,652
Amounts transfer from "Prepayment and deposits" – Prepayment for purchase of business in last year	(6,104)	(12,500)
Net cash outflow in respect of acquisition of agricultural resources trading businesses	14,770	32,152

(b) Analysis of changes in financing during the year

	Share capital including premium		Due to minority shareholders		Minority interests		Due to a director		Bank loan, secured		Restricted bank deposits	
	2006 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*
Beginning of the year	140,707	140,707	9,160	–	7,116	6,391	1,087	120	129,901	47,794	114,209	65,892
Exchange realignment	–	–	309	–	–	–	37	–	4,525	–		
(Repayment to)/advances from minority shareholders of subsidiaries	–	–	15,041	9,160	–	–	–	–	–	–	(3,859)	–
Capital contribution – from minority shareholders	–	–	–	–	281	5,470	–	–	–	–	–	–
Acquisition of additional interests in a subsidiary by the Group	–	–	–	–	(135)	(971)	–	–	–	–	–	–
Minority interests' in share of loss	–	–	–	–	(949)	(3,774)	–	–	–	–	–	–
(Repayment to)/advances from a director	–	–	–	–	–	–	(792)	967	–	–	–	–
New bank loan raised	–	–	–	–	–	–	–	–	211,588	129,901	–	–
Repayment of bank loan	–	–	–	–	–	–	–	–	–	(47,794)	–	–
Increase in restricted bank deposits	–	–	–	–	–	–	–	–	(144,484)	–	99,502	48,317
End of the year	140,707	140,707	24,510	9,160	6,313	7,116	332	1,087	201,530	129,901	209,852	114,209

The notes on pages 35 to 84 from an integral part of these financial statements.

Notes to the Financial Statements

30 June 2006

1. General Information

The Company was incorporated in Cayman Island as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies. The principal place of business of the group is located in Room 2706, 27th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 23.

(a) Basis of Preparation of Financial Statements

(i) 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 requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2(a).

(ii) Basis of measurement

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investment properties and financial assets at fair value through profit or loss are stated at their fair values as explained in the accounting policies.

1. General Information *(Continued)*

(b) Consolidated Financial Statements

The consolidated financial statements for the year ended 30 June 2006 comprise the Company and its subsidiaries and a jointly-controlled entity made up to 30 June.

As subsidiaries and jointly-controlled entity established in the People's Republic of China ("PRC") adopt 31 December as their year end date, the management financial statements of the subsidiaries and jointly-controlled entity as at and for the twelve months ended 30 June have been incorporated in the consolidated financial statements after making adjustments as considered appropriate by the directors for compliance with accounting principles generally accepted in Hong Kong.

The results of subsidiaries and a jointly-controlled entity acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Minority interests at the balances sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiaries are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

2. Possible Impact of Amendments, New Standards and Interpretation for Recently Issued Financial Reporting Standards

(a) Adoption of New HKFRSs and HKASs

The HKICPA has issued a number of new or revised HKFRSs, which also include all HKASs and Interpretations, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods commencing on or after 1 January 2005.

The Group has adopted the following HKASs and HKFRSs issued in the financial statements for the year ended 30 June 2006:

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors
HKAS 10	Events after the balance sheet date
HKAS 12	Incomes taxes
HKAS 14	Segment reporting
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 21	The effects of changes in foreign exchange rates
HKAS 23	Borrowing costs
HKAS 24	Related party disclosures
HKAS 27	Consolidated and separate financial statements
HKAS 28	Investments in associates
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of assets
HKAS 37	Provision, contingent liabilities and contingent assets
HKAS 38	Intangible assets
HKAS 39	Financial instruments: Recognition and measurement
HKAS 40	Investment property
HKFRS 2	Share-based payment
HKFRS 3	Business Combination

The adoption of these new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 32, 33, 36, 37, 38, 39, HKFRS 3 did not result in substantial changes to the accounting policies of the Group and the methods of computation in the Group's consolidated financial statements. In summary:

– HKAS 1 affects certain presentation in the balance sheet, the income statement and statement of changes in equity.

– HKASs 14, 16, 17, 23, 24, 28, 32 and 39 affect certain presentations and disclosures of the consolidated financial statements.

– HKASs 2, 7, 8, 10, 12, 18, 19, 21, 27, 33, 36, 37, 38, and HKFRS 3 do not have any significant impact as the company's accounting policies have already complied with these standards.

2. Possible Impact of Amendments, New Standards and Interpretation for Recently Issued Financial Reporting Standards *(Continued)*

(a) Adoption of New HKFRSs and HKASs *(Continued)*

The following is a summary of material changes in principal accounting policies or presentation of the financial statements as a result of the adoption of the new HKFRSs and HKASs:

(i) HKFRS 2 "Share-based Payment"

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy to account for employee share options. Under the new policy, the group recognizes the fair value of such share options as an expense with a corresponding increase recognized in a capital reserve within equity. Further details of the new policy are set out in note 3 t(iv).

The new accounting policy has been applied retrospectively with comparatives restated, except that the group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to employees on or before 7 November 2002; and

(b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

The Group had taken the advantage of the transitional provisions set out in HKFRS 2 for its options issued before 1 July 2005.

Details of the employee share option scheme are set out in note 35. During the year ended 30 June 2006, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recongise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 July 2005. In relation to share options granted before 1 July 2005, the Group has not applied HKFRS 2 to share options that were granted after 7 November 2002 and had vested before 1 July 2005, in accordance with the relevant transitional provisions of HKFRS 2.

2. Possible Impact of Amendments, New Standards and Interpretation for Recently Issued Financial Reporting Standards *(Continued)*

(a) Adoption of New HKFRSs and HKASs *(Continued)*

(ii) HKAS 17 "Leases"

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and carried at cost less accumulated depreciation and any impairment losses. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Further details of the new policy are set out in note 3(f). If the lease payments cannot be allocated reliably between the land and buildings element, the entire lease is treated as a finance lease and should be accounted for as usual under HKAS 40, if it is investment property, or under HKAS16, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment. Accounting policy for property, plant and equipment is set out in note 3(d).

The effects of changes in the accounting policies described above, which have retrospective effect on the consolidated income statement, are as follows:

	2006 *HK$'000*	2005 *HK$'000*
Effect of adopting HKAS 17		
Decrease in depreciation	(539)	(210)
Increase in amortization of prepaid lease payment	539	210
Total increase/ (decrease) in profit	–	–

The effects of changes in the accounting policies described above, which have retrospective effect on the consolidated income statement, are as follows:

	2006 *HK$'000*	2005 *HK$'000*
Effect of adopting HKAS 17		
Decrease in property, plant and equipment	(13,170)	(13,266)
Increase in prepaid lease payments		
– non-current portion	12,830	12.740
– current portion	340	526
	–	–

2. Possible Impact of Amendments, New Standards and Interpretation for Recently Issued Financial Reporting Standards *(Continued)*

(a) Adoption of New HKFRSs and HKASs *(Continued)*

(iii) HKAS 40 "Investment Property"

In prior year, the Group did not have investment properties and all its land and buildings were classified under property, plant and equipment and accounted for in accordance with the accounting policy set out in note 3(e).

During the year ended 30 June 2006, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the income statement for the period in which they arise, except where an owner-occupied property became an investment property.

(iv) HKAS 21 "The effects of change in foreign exchange rates"

In prior years, goodwill arising on the acquisition of a foreign operation was translated at the exchange rates ruling at the transaction dates.

With effect from 1 July 2005, in order to comply with HKAS 21, the group has changed its accounting policy relating to retranslation of goodwill. Under the new policy, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and is retranslated at exchange rates ruling at the balance sheet date, together with the retranslation of the net assets of the foreign operation. Further details of the new policy is set out in note 3(b).

In accordance with the transitional provisions in HKAS21, this new policy has not been adopted retrospectively and is only applied to acquisitions occuring on or after 1 July 2005. As the group has not acquired any new foreign operations since that date, the change in policy has had no impact on the financial statements for the year ended 30 June 2006.

(v) HKAS 1 "Presentation of financial statements"

Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the company).

With effect from 1 July 2005, in order to comply with HKAS 1 and HKAS 27, the group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the company. These changes in presentation have been applied retrospectively with comparatives restated.

2. Possible Impact of Amendments, New Standards and Interpretation for Recently Issued Financial Reporting Standards *(Continued)*

(b) Possible Impact of Amendments, New Standards and Interpretation for Recently Issued Financial Reporting Standards for the Annual Accounting Period ended 30 June 2006

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to these Financial Statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 December 2005:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRSs 1 & 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

HKAS 1 (Amendment) shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the company's objective, policies and processes for managing capital; quantitative data about what the company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

The HKAS 39 (Amendment) regarding the fair value option restricts the designation of any financial asset or financial liability as measured at fair value through profit and loss, unless certain conditions can be met.

The HKAS 19 (Amendment), HKAS 39 (Amendments) regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1, 4 and 6 (Amendments), HKFRS 6, HK(IFRIC)-Int 4, 5, 6 and 7 do not apply to the activities of the Group. HK(IFRIC)-Int 7 is effective for annual periods beginning on or after 1 January 2006.

Except as stated above, the Group expects that the adoption of other pronouncement listed above will not have any significant impact on the Group's financial statements in the period of initial application.

3. Principal Accounting Policies

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with HKAS and HKFRS) issued by HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance.

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain properties, plant and equipment and investment properties. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

A summary of the significant accounting policies adopted by the Group is set out below:

(a) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the company. Provided that it is probable that the economic benefits associated with the revenue transaction will flow to the group and the revenue and the costs, if any, in respect of the transaction can be measured reliably, revenue is recognised as follows:

(i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. Revenue excludes value added tax or other sales taxes and is after deduction of trade discounts if any.

(ii) Revenue from plant protection technical services is recognised rateably over the terms of the agreement when the services are rendered.

(iii) Commission income and plant protection support services income are recognised when the services are rendered.

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

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

(vi) Government grants are recognised in the balance sheet initially as deferred income 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 and 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 recognised in profit or loss as revenue on a systematic basis over the useful life of the asset.

(vii) Advance payments received from customers prior to the delivery of merchandise or provision of services are recorded as receipts in advances.

3. Principal Accounting Policies *(Continued)*

(b) Goodwill

Positive goodwill

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities is recognised in the consolidated balance sheet as an asset.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. The Group ceased amortisation of goodwill from 1 July 2004. Accumulated amortisation of goodwill as at 1 July 2004 has been eliminated with a corresponding decrease in the cost of goodwill. Goodwill arising on acquisitions on or after 1 July 2004 is not amortised and goodwill already carried in the consolidated balance sheet is not amortised after 1 July 2004. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergy. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in such circumstances is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

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

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

On acquisition of subsidiaries and jointly-controlled entities, if the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of an entity being acquired recognised as at the date of acquisition exceeds the cost of the business combination, the Group shall reassess the identification and measurement of the identifiable assets, liabilities and contingent liabilities of that entity and the measurement of the cost of the business combination; and recognise immediately in consolidated income statement any excess remaining after that reassessment.

The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

3. Principal Accounting Policies *(Continued)*

(c) Intangible Assets (Other than goodwill)

(i) System Development Cost

Expenditure on development of computer system for the Group's own use is capitalised.

(ii) Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and carried at cost less accumulated amortisation on a straight-line basis over a period of 5 to 10 years from the date when the product is available for sale to reflect the pattern in which the related economic benefits are recognised and less impairment losses.

Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iii) Technical know-how

Expenditure on acquisition of technical know-how is capitalised.

The intangible assets are amortised using straight-line method over the useful life of 5 to 10 years from the date when it is available for use.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation (see note 3(g)) and impairment losses (see note 3(h)).

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its normal working condition and location for its intended use. Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. In situation where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item in property, plant and equipment, and where the cost can be reliably measured, the expenditure is capitalized and depreciated over their expected useful live.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Accounting policy for calculating of depreciation is detailed in note 3(g).

3. Principal Accounting Policies *(Continued)*

(e) Investment Properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 3(f)) to earn rental income and/or for capital appreciation. These include land held for a currently undermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 3(a)(v).

When the group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 3(f)), 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 3(f).

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

(f) Assets Under Leases

(i) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals receivables/payables under operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective lease.

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 3(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(i). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 3(a)(v).

(iii) Operating leases charges

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

3. Principal Accounting Policies *(Continued)*

(g) Amortisation and Depreciation

Depreciation is not provided for freehold land. Property, plant and equipment are depreciated at rates sufficient to write off their cost less estimated residual value, less estimated accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	5%
Machinery	20%
Furniture and office equipment	20%
Motor vehicles	20%

(h) Impairment of Assets

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

- property, plant and equipment;
- interests in subsidiaries and jointly-controlled entities (except for those accounted for at fair value);
- system development cost;
- product development cost;
- technical know-how; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. For goodwill, intangible assets that are not yet available for use, and intangible assets that have indefinite useful lives, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

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

(ii) 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.

3. Principal Accounting Policies *(Continued)*

(h) Impairment of Assets *(Continued)*

(iii) Reversals of impairment losses

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

A reversal of impairment losses 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 the income statement in the year in which the reversals are recognised.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from 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 as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the result of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

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

(j) Jointly Controlled Entities

A jointly-controlled entity is an entity through which the Group and another party or parties undertake an economic activity which is subject to joint control by a contractual agreement. The Group reports its interest in jointly-controlled entities using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses of jointly-controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis. Where the Group transacts with its jointly-controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly-controlled entities except where unrealised losses provide evidence of an impairment of the assets transferred, where in which case they are recognised immediately in profit or loss.

Interests in jointly-controlled entities in the balance sheet are stated at cost less impairment losses. The results of jointly controlled entities are accounted to the extent of dividend received and receivable.

3. Principal Accounting Policies *(Continued)*

(k) Financial Assets at Fair Value Through Profit or Loss

Investments in securities held for trading are classified as financial assets at fair value through profit or loss included in current assets and are stated in the balance sheet at fair value. Gain or loss on the fair value changes of financial assets is recognised in the income statement.

(l) Inventories

Inventories comprise stocks and work in progress are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out basis, comprises all costs of purchases, 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, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 3(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

(n) Cash and Cash Equivalents

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

(o) 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 cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

3. Principal Accounting Policies *(Continued)*

(q) Provisions and Contingent Liabilities

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

(r) Income Tax

(i) 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 the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

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

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted. The carrying amount of deferred tax assets/liabilities is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised.

3. Principal Accounting Policies *(Continued)*

(r) Income Tax *(Continued)*

(iv) 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, and only if, the Group and the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

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

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

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amount so 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.

(s) Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required to settle the obligation or the amount of obligation cannot be measured with sufficient reliability.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised.

3. Principal Accounting Policies *(Continued)*

(t) Employee Benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Bonus plan

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plan are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(iii) Employee retirement benefits

The Group operates a number of defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

(iv) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes Model taking into account the terms and condition upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, 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 capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the special 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 special 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).

3. Principal Accounting Policies *(Continued)*

(u) Translation of Foreign Currencies

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Hong Kong dollars which is the Company's functional and presentation currency.

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

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

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

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

(v) Borrowing Costs

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

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

(w) Advertising and Promotion Costs

Costs of advertising and promotion are expensed as incurred.

3. Principal Accounting Policies *(Continued)*

(x) Segment Reporting

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

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format. The Group's operations are primarily in The People's Republic of China and all of the Group's turnover is attributable to businesses conducted in Mainland China. Consequently, no geographical segment analysis is presented.

Segment assets are those operating assets employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages and taxes currently payable and accrued liabilities. Segment liabilities do not include deferred income taxes. Capital expenditure comprises additions to system development cost (Note 17), intangible assets (Note 19) and property, plant and equipment (Note 20).

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

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

(y) Related Parties

Parties are considered to be related to the group if the group has the ability directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group.

4. Significant Accounting Judgements and Estimates

(a) Judgements

In the process of applying the Group's accounting policies; management has made the following judgements, apart from those involving estimations, which have significant effect on the amounts recognized in the financial statements.

(b) Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful lives and residual values of property, plant and equipment

The Group estimates the useful lives and residual values-of its property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives and residual values of the property, plant and equipment are reviewed annually and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the Group's estimation of the useful lives and residual values of its property, plant and equipment is based on its collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in those estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives and residual value of the Group's property, plant and equipment would increase its recorded depreciation expenses and decreases its non-current assets.

(ii) Assets impairment

HKFRSs require that an impairment review be performed when there is indication of impairment. In the case of goodwill and intangible assets, such assets are subject to yearly impairment test at least annually and/or whenever there is an indication that such asset may be impaired.

Purchase accounting requires extensive use of accounting estimates to allocate the purchase price to the fair market values of the assets and liabilities purchased, including intangible assets and contingent liabilities. The Group's business acquisition have resulted in goodwill, which in the past affected its results of operations for the amount of periodic amortization expense. Goodwill is subject to a periodic impairment test.

Determining the fair value of property, plant and equipment at the date of acquisition, which requires the determination of future cash flows expected to be generated from the continued use (i.e. value in use) and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements.

Future events could cause the Group to conclude that property, plant and equipment associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on its financial condition and results of operations.

The preparation of future cash flows involves significant estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in its assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment changes under HKASs and HKFRSs.

4. Significant Accounting Judgements and Estimates *(Continued)*

(b) Estimation Uncertainty *(Continued)*

(iii) Deferred tax assets

The Group reviews the carrying amounts at each balance sheet date and estimate whether the Group will generate sufficient taxable profit to allow all or part of the deferred assets to be utilised.

(iv) Impairment losses for bad and doubtful accounts

The policy for impairment losses for bad and doubtful debts of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's judgment. A considerable amount of judgement is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(v) Allowances for inventories

The Group estimates the allowance for inventories based on the best available facts and circumstances, including but not limited to, the inventories' own conditions (i.e. whether they are damaged or become wholly or partially obsolete), their market selling prices, estimated costs of completion and estimated costs to be incurred for their sale. The provisions are re-evaluated and adjusted as additional information received affects the amount estimated.

5. Financial Risk Management Objectives and Policies

The Group's major financial instruments include trade and other receivables, amounts due from minority shareholders, cash and cash equivalents, trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Credit risk

In order to minimise credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk is significantly reduced. Besides, the Group had wide customer base and do not have concentration on credit risk.

(ii) Liquidity risk

The Group manages its funds conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need. Various banking facilities and credit lines have also been arranged with different banks in order to fund any emergency liquidity requirements.

(iii) Cash flow interest rate risk

Cash flow interest risk is the risk that the cash flows of the financial instruments will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of the financial instruments will fluctuate because of change in market interest rates. The Group is exposed to cash flow interest rate risk which relates primarily to the Group's floating rate bank borrowings. It is the Group's policy to maintain borrowings at market interest rate and to restrict the exposure to fair value interest rate risk.

(iv) Foreign currency risk

The group mainly operates in the PRC with most of the transactions denominated and settled in Renminbi ("RMB"). RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. The PRC subsidiaries of the company transact in their own functional currency and therefore no currency risk was noted for the subsidiaries. The group does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure closely and will consider the usage of hedging instruments when the need arises.

(v) Fair value

All financial instruments are stated at amount not materially different from the fair value as at 30 June 2006 and 2005.

6. Turnover and Revenue

The Group is principally engaged in (i) the trading of pesticides, fertilisers and other agricultural products; (ii) the manufacturing and selling of plant growth regulatory products, pesticides and fertilisers; and (iii) the provision of plant protection technical services; and (iv) the trading of non-agricultural resources products in Mainland China. Revenues recognised during the year are as follows:

	2006 *HK$'000*	2005 *HK$'000*
Turnover		
Trading of pesticides, fertilisers and other agricultural products	1,585,803	1,177,315
Sales of plant growth regulatory products, pesticides and fertilisers	204,649	94,587
Provision of plant protection technical services	17,768	13,139
Trading of non-agricultural resources products	478,035	355,667
	2,286,255	1,640,708
Other revenue		
Commission income	–	220
Government subsidy	961	–
Interest income from bank	2,407	1,247
Other interest income	9,777	–
Fair value adjustment on investment property	818	–
Sundry income	5,451	–
	19,414	1,467

7. Segment Information

(a) Business Segments

In accordance with the Group's internal financial reporting and management purposes, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format, with each segment organised and managed separately.

The Group comprises the following business segment:

Manufacturing operation	–	Manufacturing and selling of plant growth regulatory products, pesticides and fertilisers
Trading operation	–	Trading of pesticides, fertilisers and other agricultural products
Consultancy operation	–	Provision of plant protection technical services
Non-agricultural resources trading operation	–	Trading of non-agricultural resources products

7. Segment Information *(Continued)*

(a) Business Segments *(Continued)*

Segment information about these business is presented at below:

(i) *2006:*

	Trading operation *HK$'000*	Manufacturing operation *HK$'000*	Consultancy operation *HK$'000*	Non-agricultural resources trading operation *HK$'000*	Inter-segment elimination *HK$'000*	Consolidated total *HK$'000*
Turnover						
External sales	1,585,803	204,649	17,768	478,035	–	2,286,255
Inter-segment sales	15,080	18,916	3,707	12,191	49,894	–
	1,600,883	223,565	21,475	490,226	(49,894)	2,286,255
Segment results	17,533	41,584	14,118	6,239		79,474
Unallocated corporate expenses						(7,442)
Operating profit						72,032
Interest income						12,184
Finance costs						(17,490)
Taxation						(6,048)
Net profit						60,678
Segment assets	1,091,313	144,200	31,856	166,262		1,433,631
Unallocated corporate assets						4,547
						1,438,178
Segment liabilities	858,950	34,354	3,968	115,551		1,012,823
Unallocated corporate liabilities						1,280
						1,014,103
Capital expenditure	23,724	2,060	34	52	–	25,870
Depreciation and amortisation charge	9,801	19,965	2,039	20	–	31,825
Impairment losses	–	–	–	3,330	–	3,330

7. Segment Information *(Continued)*

(a) Business Segments *(Continued)*

(ii) 2005:

	Trading operation *HK$'000*	Manufacturing operation *HK$'000*	Consultancy operation *HK$'000*	Non-agricultural resources trading operation *HK$'000*	Inter-segment elimination *HK$'000*	Consolidated total *HK$'000*
Turnover						
External sales	1,177,315	94,587	13,139	355,667		1,640,708
Inter-segment sales	4,923	3,061	–	–	(7,984)	–
	1,182,238	97,648	13,139	355,667	(7,984)	1,640,708
Segment results	4,644	20,363	5,747	1,334		32,088
Unallocated corporate expenses						(4,563)
Operating profit						27,525
Interest income						1,247
Finance costs						(9,550)
Taxation						(1,486)
Net profit						17,736
Segment assets	727,895	119,367	41,008	129,688		1,017,958
						6,163
						1,024,121
Segment liabilities	(565,786)	(8,128)	(5,267)	(102,800)		(681,981)
						(812)
						682,793
Capital expenditure	35,397	963	2	70	–	36,432
Depreciation and amortisation charge	9,787	21,823	3,491	5		35,106
						27
						35,133
Impairment losses	15,164	–	–	–	–	15,164

(b) Geographical segments

The Group's operations are primarily in Mainland China and all of the Group's turnover is attributable to business conducted in Mainland China. Consequently, no geographical segment analysis is presented.

8. Profit from Operations

Profit from operations has been arrived at charging and (crediting):

	2006 HK$'000	2005 HK$'000
Charging		
Cost of inventories	2,122,132	1,525,180
Amortisation of intangible assets		
– System development costs	8,846	8,655
– Product development costs	1,755	2,022
– Technical know-how	16,006	12,915
Auditors' remuneration	810	812
Depreciation of property, plant and equipment	10,160	11,541
Amortization of lease premium for land	539	210
Net exchange loss	1,174	42
Operating leases		
– Land and buildings	2,823	2,353
– Other properties, plant and equipment	187	28
Loss on disposal of property, plant and equipment	72	27
Bad debts written off	323	–
Provision for doubtful debts	–	548
Provision for impairment losses on goodwill	3,330	15,164
Provision for obsolete and slow moving inventory	427	–
Staff costs, including directors' emoluments *(Notes 10 and 12)*	20,607	12,812
Crediting		
Net provision for obsolete and slow-moving inventories written back	–	(1,323)

9. Finance Costs

	2006 HK$'000	2005 HK$'000
Interest expense on:		
Bank loans and overdrafts, wholly repayable within 5 year	14,345	8,640
Bills payable	1,520	910
Other loan interest	1,625	–
	17,490	9,550

10. Directors' Emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Fee for non-executive directors	240	210
Executive directors:		
Fees	–	–
Salaries and other benefits	960	960
Contribution to retirement schemes	24	24
Equity-settled share-based payments	44	–
Total borrowing costs	1,268	1,194

The remuneration of individual director is set out below:

	For the year ended 30 June 2006				
Name of directors	**Fees**	**Salaries, allowances and benefits in kind**	**Equity-settled share-based payment**	**Retirement scheme contributions**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Executive directors					
Mr. Wu Shaoning	–	600	22	12	634
Mr. Yang Zhuoya	–	360	22	12	394
Independent non-executive directors					
Mr. Lam Ming Yung	60	–	–	–	60
Mr. Zhang Shaosheng	60	–	–	–	60
Mr. Wong Chi Wai	120	–	–	–	120
	240	960	44	24	1,268

10. Directors' Emoluments *(Continued)*

	For the year ended 30 June 2005			
Name of directors	Fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Wu Shaoning	–	600	12	612
Mr. Yang Zhuoya	–	360	12	372
Independent non-executive directors				
Mr. Lam Ming Yung	60	–	–	60
Mr. Zhang Shaosheng	55	–	–	55
Mr. Wong Chi Wai	90	–	–	90
Ms. He Zhongpei	5	–	–	5
	210	960	24	1,194

The above emoluments include the value of share options granted to certain directors under the Company's share option scheme as estimated at the date of grant. The details of these benefits in kind are disclosed under the paragraph "Share option scheme" in the directors' report and note 35.

No directors of the Company waived any emoluments and no emoluments was paid or payable by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office during the year.

11. Individuals with Highest Emoluments

During the year, the five highest paid individuals included three (2005: two) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining two (2005: three) individuals during the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**546**	1,734
Equity-settled share-based payments	**127**	–
Retirement scheme contributions	**24**	59
	697	1,793

The emoluments of each of these two (2005: three) individuals are less than HK$1,000,000.

During the year, no emoluments were paid by the Group to the individual as a discretionary bonus or an inducement to join or upon joining the Group or as compensation for loss of office.

12. Staff Costs (Including Directors' Emoluments)

	2006 *HK$'000*	2005 *HK$'000*
Salaries and staff welfare	**17,296**	12,345
Retirement scheme contributions *(Note 13)*	**542**	467
Equity-settled share-based payments	**2,769**	–
	20,607	12,812

13. Retirement Benefit Scheme Contributions

The Group operates a defined contribution MPF scheme for its Hong Kong employees. The Group contributes 5% of the employees' relevant income each month as defined in the MPF Schemes Ordinance, subject to a maximum of HK$1,000 per person.

The Group also participates in the employee pension schemes of the respective municipal governments in various places in Mainland China where the Group operates. The Group makes monthly contributions calculating based on a percentage of the monthly payroll costs and the respective municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group in Mainland China. The Group's contributions to the schemes are expensed as incurred.

During the year, the aggregate amount of employer's contribution made by the Group was approximately HK$542,000 (2005: HK$467,000).

14. Taxation

	2006 *HK$'000*	2005 *HK$'000*
Mainland China enterprise income tax		
– Current year provision	**5,865**	3,277
– Under/(over) provision in prior years	**183**	(1,791)
	6,048	1,486

14. Taxation *(Continued)*

(a) Reconciliation of the taxation charge and accounting profit at applicable tax rate:

	2006 *HK$'000*	2005 *HK$'000*
Profit before taxation	**66,726**	19,222
Notional tax on profit before tax, calculated at effective tax rate 28% (2005: 27%)	**18,868**	5,256
Tax effect of:		
– non-deductible expenses	**3,511**	5,235
– non-taxable income	**(18,556)**	(10,554)
– unused tax losses not recognised	**2,891**	1,549
– utilization of tax loss	**(849)**	–
– underprovision of previous year	**183**	–
Actual tax expenses	**6,048**	1,486

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

No Hong Kong profits tax has been provided for in the financial statements as the trading operations in Hong Kong are offshore in nature and there was no assessable profit derived in Hong Kong during the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the relevant jurisdictions.

(c) Mainland China Enterprise Income Tax represents tax charges on the estimated assessable profits of the Mainland China Subsidiaries of the Group. Domestic enterprises of Mainland China are subject to an Enterprise Income Tax rates from 15% to 33%. Productive foreign investment enterprises established in the special economic zones of Fujian, Mainland China, are subject to preferential Enterprise Income Tax rates ranging from 15% to 24%.

From 1998, the Group established certain productive foreign investment enterprises which were/are entitled to full exemption from Mainland China enterprise income tax for two years starting from its first profit-making year followed by a 50% reduction for the next consecutive three years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China. No provision for Mainland China Enterprise Income Tax was made in respect of the operations of these productive foreign investment enterprises during the year ended 30 June 2006 (2005: Nil) since these enterprises were either at tax loss position or enjoying the full tax exemption treatment during the year.

(d) There was no material unprovided deferred taxation for the year.

15. Net Profit Attributable to Shareholders

The consolidated net profit attributable to shareholders includes a loss of approximately HK$4,601,000 (2005: loss of approximately HK$1,748,000) dealt with in the financial statements of the Company.

16. Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the Group's net profit attributable to shareholders of HK$61,627,000 (2005: HK$21,511,000) and on the weighted average number of 421,565,000 (2005: 421,565,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 30 June 2006 was based on the Group's net profit attributable to shareholders of HK$61,627,000 and the weighted average number of ordinary shares of 423,035,000 shares as adjusted for the effect of all dilutive potential shares under the Company's share options. The effect of dilutive potential shares on the average number of shares in issue during the year has approximately 1,470,000 shares, which were deemed to have been issued at no consideration as if all the outstanding options had been exercised on the date when the options were becoming exercisable.

No diluted earnings per share for the year ended 30 June 2005 is presented as there was no dilutive potential shares in existence during the year.

16. Earnings Per Share *(Continued)*

(c) Reconciliations

	Number of ordinary shares 2006 '000	2005 '000
Weighted average number of ordinary shares used in calculating basic earnings per share	**421,565**	N/A
Deemed issue of ordinary shares for no consideration	**1,470**	N/A
Weighted average number of ordinary shares used in calculating diluted earnings per share	**423,035**	N/A

17. System Development Costs

	2006 HK$'000	2005 HK$'000
Cost:		
At beginning of year	**43,201**	43,363
Exchange adjustment	**1,460**	(162)
At end of the year	**44,661**	43,201
Accumulated amortisation:		
At beginning of year	**23,041**	14,454
Charge for the year	**8,846**	8,655
Exchange adjustment	**865**	(68)
At end of year	**32,752**	23,041
Net book value:		
At end of year	**11,909**	20,160
At beginning of year	**20,160**	28,909

18. Goodwill

	2006 HK$'000	2005 HK$'000
Cost		
At the beginning of the year	75,244	49,491
Transfer from "Prepayments and deposits"	–	12,500
Goodwill on acquisition	20,874	32,152
Transfer	–	(18,671)
Exchange alignment	2,541	(228)
At the end of the year	98,659	75,244
Accumulated amortisation and impairment losses		
At the beginning of the year	15,164	18,767
Impairment loss	3,330	15,164
Transfer	–	(18,671)
Exchange alignment	512	(96)
At the end of the year	19,006	15,164
Net Book Value		
At the end of the year	79,653	60,080
At the beginning of the year	60,080	30,724

In accordance with the transitional provision of HKFRS 3, the amount of accumulated amortisation of goodwill of HK$18,671,000 at 30 June 2004 has been eliminated with the corresponding decrease in the cost of goodwill and the goodwill is tested for impairment.

The Group performed valuation all items in the intangible assets as at 30 June 2006 by the external expertises, namely Ample Corporate Valuation and Consulting Limited. According to the valuation report, the company's directors and the Group's management reviewed and evaluated the recoverability of the carrying values of the goodwill at 30 June 2006 and they are of the opinion that the underlying values of the goodwill are not less than carrying values at 30 June 2006.

19. Other Intangible Assets

	2006 HK$'000	2005 HK$'000
Product development costs	15,766	16,966
Technical know-how	42,419	56,666
	58,185	73,632

(a) Product development costs

	2006 HK$'000	2005 HK$'000
Cost		
At the beginning of the year	27,560	27,831
Exchange alignment	932	(271)
At the end of the year	28,492	27,560
Accumulated amortisation and impairment losses		
At the beginning of the year	10,594	8,776
Amortization for the year	1,755	2,022
Exchange alignment	377	(204)
At the end of the year	12,726	10,594
Net Book value		
At the end of the year	15,766	16,966
At the beginning of the year	16,966	19,055

19. Other Intangible Assets *(Continued)*

(b) Technical know-how

	2006 HK$'000	2005 HK$'000
Cost		
At the beginning of the year	86,025	73,152
Payment for acquisition of technical know-how of pesticides and medical system	–	5,635
Transfer from "Prepayments and deposits	–	7,541
Exchange alignment	2,906	(303)
At the end of the year	88,931	86,025
Accumulated amortisation and impairment losses		
At the beginning of the year	29,359	16,528
Amortisation for the year	16,006	12,915
Exchange alignment	1,147	(84)
At the end of the year	46,512	29,359
Net Book value		
At the beginning of the year	42,419	56,666
At the end of the year	56,666	56,624

The Group performed valuation all items in the intangible assets as at 30 June 2006 by the external expertises, namely 福建興閩誠信資產評估有限責任公司. According to the valuation reports, the company's directors and the Group's management reviewed and evaluated the recoverability of the carrying values of the intangible assets at 30 June 2006 and they are of the opinion that the underlying values of the intangible assets are not less than carrying values at 30 June 2006.

20. Property, Plant and Equipment

	The Group				
	Buildings *HK$'000*	**Machinery** *HK$'000*	**Furniture and office equipment** *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
Cost					
At 1 July 2004 (Restated)	18,247	63,930	1,239	2,611	86,027
Additions	16,970	798	1,053	1,445	20,266
Disposals	–	–	–	(111)	(111)
Transfer	–	38	(38)	–	–
Exchange alignment	152	(230)	(6)	(10)	(94)
At 30 June 2005 (Restated)	35,369	64,536	2,248	3,935	106,088
At 1 July 2005 (Restated)	35,369	64,536	2,248	3,935	106,088
Additions	2,759	3,826	1,400	1,463	9,448
Disposals	(91)	(358)	(19)	(428)	(896)
Transfer to investment properties	(17,452)	–	–	–	(17,452)
Exchange alignment	1,411	2,167	76	133	3,787
At 30 June 2006	**21,996**	**70,171**	**3,705**	**5,103**	**100,975**
Accumulated depreciation					
At 1 July 2004 (Restated)	1,958	34,351	277	961	37,547
Charge for the year	1,337	9,310	313	581	11,541
Disposals on written back	–	–	–	(45)	(45)
Transfer	–	7	(7)	–	–
Exchange alignment	(12)	(124)	(1)	(4)	(141)
At 30 June 2005 (Restated)	3,283	43,544	582	1,493	48,902
At 1 July 2005	3,283	43,544	582	1,493	48,902
Charge for the year	1,051	7,510	815	784	10,160
Disposals on written back	(1)	(288)	(8)	(155)	(452)
Transfer to investment property	(276)	–	–	–	(276)
Exchange alignment	152	1,458	116	50	1,776
At 30 June 2006	**4,209**	**52,224**	**1,505**	**2,172**	**60,110**
Net book value:					
At 30 June 2006	**17,787**	**17,947**	**2,200**	**2,931**	**40,865**
At 30 June 2005 (Restated)	32,086	20,992	1,666	2,442	57,186

The buildings represent the Group's factory premises located in the Mainland China on the medium term lease. At the balance sheet, the Group pledged certain land and buildings and machinery for granting banking facilities with its net book value of HK$34,906,000 (2005 : HK$13,046,000) and HK$1,942,000 (HK$1,878,000) respectively.

20. Property, Plant and Equipment *(Continued)*

The analysis of net book value of properties is as follows :

	2006 HK$'000	2005 HK$'000
In PRC		
– medium-term lease	56,791	45,352
Representing :		
Investment property carried at fair value	25,834	–
Buildings carried at cost	17,787	32,086
	43,621	32,086
Interest in leasehold land held for own use under operating lease	13,170	13,266
	56,791	45,352

21. Investment Property

	2006 HK$'000	2005 (restated) HK$'000
Cost		
At 1 July		
Transfer from properties, plant and equipment	25,009	–
Fair value adjustment	818	–
Revaluation gain	7	–
At 30 June	25,834	–

At the balance sheet date, the investment property of the Group was revalued on the basis of open market value calculated by reference to the Market Comparative Approach. The revaluation was carried out by an independent external property valuer, namely 湘潭正茂房地產評估有限公司, a qualified firm for real estate appraisal in the PRC with experience in the location and category of property being valued.

22. Prepayments and Deposits

	2006 HK$'000	2005 HK$'000
Prepayment for purchase of property, plant and equipment	–	4,870
Prepayment for purchase of businesses	–	6,104
	–	10,974

23. Interests in Subsidiaries

	The company 2006 HK$'000	2005 HK$'000
Unlisted investments, at cost	**11,727**	11,727
Due therefrom subsidiaries	**118,331**	120,018
	130,058	131,745

The amounts due from subsidiaries are unsecured and interest-free. In the opinion of the directors, the amounts will not be repaid in the next twelve months. The Company had agreed not to demand repayment from the subsidiaries until the subsidiaries are financially capable to do so.

Details of the principal subsidiaries at the balance sheet date are as follows:

Name	Country of incorporation/ registration and operations	Class of issued/ registered paid up capital	Percentage of interest held in issued/ registered capital	Principal activities
Held directly:				
Yut Yat Company Limited	British Virgin Islands	US$60,000	100%	Investment holding
Held indirectly:				
Fujian Agrotech Holdings Co., Ltd. *	PRC	RMB50,000,000	100%	Investment holding and provision of agricultural technical support services
Fuzhou Agrotech Crop Science Co., Ltd. *	PRC	HK$40,000,000	100%	Provision of agricultural technical support services
Fujian Agrotech Bio–Engineering Co., Ltd.*	PRC	US$1,000,000	100%	Manufacturing and selling of plant growth regulatory products and fertilisers
Loyal Faith International Industrial Limited	Hong Kong	HK$1,000,000	100%	Investment holding
Topmart Limited	Hong Kong	HK$2	100%	Investment holding

23. Interests in Subsidiaries *(Continued)*

Name	Country of incorporation/ registration and operations	Class of issued/ registered paid up capital	Percentage of interest held in issued/ registered capital	Principal activities
Held indirectly: *(Continued)*				
福建南平市浩倫作物科學有限公司**	PRC	RMB10,000,000	90%	Trading of pesticides, fertilisers other agricultural products and provision of agricultural technical support services
山西超大浩倫農業科技有限公司**	PRC	RMB3,000,000	100%	Trading of pesticides, fertilisers and other agricultural products
江西浩倫農業科技有限公司**	PRC	RMB5,000,000	100%	Trading of pesticides, fertilisers and other agricultural products
湖南浩倫農業科技有限公司**	PRC	RMB50,000,000	100%	Trading of pesticides, fertilisers and other agricultural products
江蘇浩倫農業科技有限公司**	PRC	RMB50,000,000	100%	Trading of pesticides, fertilisers and other agricultural products
海南浩倫農業科技有限公司**	PRC	RMB2,000,000	100%	Trading of pesticides, fertilisers and other agricultural products
大豐市浩倫農資超市有限責任公司**	PRC	RMB5,000,000	70%	Trading of pesticides, fertilisers and other agricultural products
建湖縣浩倫農資超市有限責任公司**	PRC	RMB1,000,000	70%	Trading of pesticides, fertilisers and other agricultural products
漳州市浩倫農業科技有限公司**	PRC	RMB1,000,000	70%	Trading of pesticides, fertilisers and other agricultural products
吉安市浩倫農業科技有限公司**	PRC	RMB1,000,000	70%	Trading of pesticides, fertilisers and other agricultural products
福建省三明市浩倫園藝植保有限公司**	PRC	RMB3,000,000	70%	Trading of pesticides, fertilisers and other agricultural products

23. Interests in Subsidiaries *(Continued)*

Name	Country of incorporation/ registration and operations	Class of issued/ registered paid up capital	Percentage of interest held in issued/ registered capital	Principal activities
Held indirectly: *(Continued)*				
太原市浩倫科力農業科技有限公司**	PRC	RMB1,000,000	70%	Trading of pesticides, fertilisers and other agricultural products
臨汾市超大浩倫農業科技有限公司**	PRC	RMB500,000	70%	Trading of pesticides, fertilisers and other agricultural products
常德浩倫農業科技有限公司**	PRC	RMB500,000	70%	Trading of pesticides, fertilisers and other agricultural products
華容浩倫金穗農業科技有限公司**	PRC	RMB500,000	85%	Trading of pesticides, fertilisers and other agricultural products
荊門市浩淪農科磷化有限公司**	PRC	RMB3,000,000	100%	Manufacturing and selling of fertilizers
(Formerly known as 福州浩倫東方貿易有限公司)** 福州浩倫東方資源物資有限公司)	PRC	RMB30,000,000	100%	General trading and export
福州澤林貿易有限公司**	PRC	RMB1,000,000	70%	Trading of coal
山東浩倫農業科技有限公司**	PRC	RMB25,000,000	100%	Trading of pesticides, fertilizers and other agricultural products
上海遠洋農業生產資料有限公司**	PRC	RMB2,000,000	70%	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	80%	Trading of pesticides, fertilizers and other agricultural products
濟南浩倫安耐特化工有限公司**	PRC	RMB1,800,000	70%	Trading of pesticides, fertilizers and other agricultural products

23. Interests in Subsidiaries *(Continued)*

Name	Country of incorporation/ registration and operations	Class of issued/ registered paid up capital	Percentage of interest held in issued/ registered capital	Principal activities
Held indirectly: *(Continued)*				
山西安豐農業科技有限公司**	PRC	RMB1,000,000	70%	Trading of pesticides, fertilizers and other agricultural products
福州浩倫植保服務有限公司**	PRC	RMB3,000,000	100%	Trading of pesticides, fertilisers and other agricultural products
福州浩倫技術咨詢有限公司**	PRC	RMB500,000	100%	Provision of agricultural technical support services and consultancy services
山西永興肥業有限公司**	PRC	RMB1,000,000	70%	Trading of pesticides, fertilisers and other agricultural products

* *Sino-foreign owned enterprise*

** *Domestic limited liability companies*

24. Interests in a Jointly-controlled Entity

Details of jointly-controlled entity at the balance sheet is as follows:

Name	Form of business structure	Country of incorporation/ registration and operation	Particulars of issued and paid up capital	Principal activities	Effective equity interest held by Group
Held indirectly:					
湖南湘農農資貿易有限公司	Domestic limited liability company	PRC	RMB57,500,000	Trading of pesticides, fertilizers and other agricultural products	52%

24. Interests in a Jointly-controlled Entity *(Continued)*

For the year ended 30 June 2006, the key consolidated financial information of the jointly-controlled entities is as follows:

	2006 *HK$'000*	2005 *HK$'000*
Non-current assets	**26,321**	25,117
Current assets	**89,871**	59,079
Current liabilities	**(72,345)**	(24,037)
Turnover	**277,272**	164,382
Profit for the year	**2,284**	6,170

25. Inventories

	The Group	
	2006 *HK$'000*	2005 *HK$'000*
Raw materials	**11,976**	6,700
Work in progress	**333**	715
Finished goods	**161,085**	93,783
	173,394	101,198
Less: Impairment loss for obsolete and slow-moving inventories	**(665)**	(238)
	172,729	100,960

At 30 June 2006, the carrying amount of inventories that are carried at net realisable value amounted to HK$160,753,000 (2005: HK$89,092,000).

26. Lease Premium for Land

	2006 *HK$'000*	2005 *HK$'000*
Leasehold land under medium-lease in the PRC	**13,170**	13,266
Analysed for reporting purpose as:		
Non-current	**12,830**	12,740
Current	**340**	526
	13,170	13,266

27. Other Receivables, Deposits and Prepayments

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits for purchase of inventories	**394,964**	266,112	**–**	–
Due from minority shareholders of subsidiaries *(a)*	**922**	1,533	**–**	–
Others	**65,299**	84,592	**72**	72
	461,185	352,237	**72**	72

(a) The amounts due from minority shareholders of subsidiaries are unsecured, interest-free and repayable within twelve months.

28. Trade and Bills Receivables

The Group generally requires its customers to pay a deposit shortly before delivery of merchandise, with the balance of the sales amount payable within credit periods ranging from 90 to 180 days. The aging analysis of trade receivables is as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
0–30 days	**104,501**	119,081
31–60 days	**53,276**	25,974
61–90 days	**20,911**	13,670
91–180 days	**20,973**	6,682
Over 180 days	**22,039**	6,005
	221,700	171,412
Less: Impairment loss for bad and doubtful debts	**(3,337)**	(3,363)
	218,363	168,049

All trade and bills receivable are expected to be recovered within one year.

29. Due to a Director

Executive directors	Due to at end of the year	Due to beginning of the year	Maximum outstanding balance during the year	
			2006	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Wu Shaoning	332	1,087	**1,251**	1,087

The amount due to a director is unsecured, interest-free and repayable within twelve months.

30. Bank Balances and Cash and Restricted Bank Deposits

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Bank balances and cash	**145,802**	53,368
Restricted bank deposits	**209,852**	114,209
	355,654	167,577
Restricted bank deposits	**(209,852)**	(114,209)
Cash and cash equivalents in the consolidated cash flow statement	**145,802**	53,368

Restricted bank deposits are pledged as security for the Group's certain bank loans and bills payable.

At 30 June 2006, approximately HK$341,414,000 (2005: HK$144,388,000) of the Group's cash and bank balances and restricted bank deposits were denominated in Renminbi and kept in PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the government of the PRC.

31. Interest Bearing and Secured Loans

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Interest-bearing bank loans		
– secured *(note 39)*	**201,530**	129,901
The analysis of the above balance is as follows:		
Bank loans		
– Within 1 year or on demand	**200,559**	127,084
– After 1 year but within 2 years	**971**	1,878
– After 2 years but within 5 years	**–**	939
	201,530	129,901

The interest-bearing bank loans are payable within five years. Interest is charged on the outstanding balance at the range of 4.6% to 8.8% per annum.

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

	The Group	
	2006	2005
	'000	*'000*
Euro	**EUR18**	–
United State Dollars	**USD2,339**	USD107

32. Trade and Bills Payable

The aging analysis of the trade and bills payables is as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
0–30 days	**126,160**	139,229
31–60 days	**169,672**	67,370
61–90 days	**94,067**	67,147
91–180 days	**266,231**	158,277
over 180 days	**18,332**	–
	674,462	432,023

33. Accruals and Other Payables

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accrued operating expenses	**5,072**	3,970	**856**	711
Accrued pension cost *(Note 10)*	**545**	533	**–**	–
Receipts in advance	**50,328**	64,500	**–**	–
Due to minority shareholders of subsidiaries *(a)*	**24,510**	9,160	**–**	–
Others	**47,364**	34,878	**90**	–
	127,819	113,041	**946**	711

(a) As at 30 June 2006, approximately HK$24,510,000 of the amounts due to minority shareholders of subsidiaries (2005: HK$9,160,000) were unsecured, interest-free and repayable in demand.

34. Share Capital

	Number of ordinary shares *(in thousands)*	*HK$'000*
Authorised ordinary shares of HK$0.10 each:		
At 1 July 2004 and 30 June 2005	500,000	50,000
At 1 July 2005	500,000	50,000
Increase	2,500,000	250,000
At 30 June 2006	3,000,000	300,000
Issued and fully paid:		
At 1 July 2004, 30 June 2005 and at 30 June 2006, ordinary shares of HK$0.10 each	421,565	42,157

Note: At an extraordinary general meeting held on 1 March 2006, a special resolution was passed to increase the authorised share capital from HK$50,000,000 to HK$300,000,000 by the creation of 2,500,000,000 shares of HK$0.10 each.

35. Equity-Settled Share-based Transactions

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

The total number of shares in respect of which options may be granted under the Scheme must not exceed 10% of the shares of the Company in issue as at the adoption date. The total number of shares issued and to be issued upon exercise of the options grants and to be grants 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.

Option grants 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 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.

Pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31 December 2001, a Share Option Scheme have been adopted by the Company.

35. Equity-Settled Share-based Transactions *(Continued)*

(a) On 1 December 2003, the Company granted options to the grantees to subscribe for 30,000,000 shares in the Company at an exercise price of HK$0.55 per share. Options granted will expire on 31 December 2011. The options was allowed to exercise at any time from 1 January 2004 to 31 December 2011.

		Number of options			
	Exercise price *HK$*	Outstanding at 1.7.2004 and at 30.6.2005	Lapsed during the year ended 30.6.2006	Exercised during the year ended 30.6.2006	Outstanding at 30.6.2006
Directors	0.55	7,000,000	–	–	7,000,000
Employees	0.55	23,000,000	(17,500,000)	–	5,500,000
		30,000,000	(17,500,000)	–	12,500,000

(b) During the year, the Company further granted options to the grantees to subscribe for 11,000,000 and 45,500,000 shares in the Company at exercise prices of HK$0.282 and HK$0.455 respectively on 16 December 2005 and 23 May 2006.

Shares are issued when options are exercised. The Group has no legal or constructive obligations to repurchase or settle the options in cash.

Movement of the options granted during the year are as follow:

		Number of options			
	Exercise price *HK$*	Granted on 16.12.2005	Granted on 23.5.2006	Lapsed/ Exercised during the year	Outstanding at 30.6.2006
Directors	0.455	–	1,400,000	–	1,400,000
Employees	0.282	11,000,000	–	–	11,000,000
	0.455	–	44,100,000	–	44,100,000
		11,000,000	45,500,000	–	56,500,000

The options granted on 16 December 2005 were exercisable upon issue and the options granted on 23 May 2006 were exercisable from 5 September 2006. All options are allowed to exercise at any quantity.

35. Equity-Settled Share-based Transactions *(Continued)*

(b) *(Continued)*

As mentioned in note 2(a)(i), the Group has, for the first time, applied HKFRS 2 to account for equity-settled share-based payment transactions. In accordance with HKFRS 2, fair value of share options granted to directors, employees and other participants determined at the date of grant is expensed over the vesting period, with a corresponding adjustments to the Group's share option reserve. During the year, an amount of share option expenses of HK$2,769,000 (2005: Nil) has been recognised in the income statement, with a corresponding adjustment made in the Group's share option reserve.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes Model. The contractual life of the option is used as an input into this model. Exceptions of early exercise are incorporated into the Black-Scholes Model.

The following assumptions were used to calculate the fair values of share options granted in both years.

	16.12.2005	**23.5.2006**
Weighted average share price	HK$0.295	HK$0.452
Exercise price	HK$0.282	HK$0.455
Expected life of options	6 years	5.29 years
Expected volatility	56.41%	35.04%
Expected dividend yield	5%	5%
Risk free rate	4.179%	4.653%
Estimated fair value of option at grant date	HK$0.123	HK$0.083
Closing share price immediately before date of grant	HK$0.270	HK$0.420

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends paid out record and the expectation from the management of the Company. Changes in the subjective input assumptions could materially affect the fair value estimate.

There was no service conditions or market conditions associated with the share options granted.

36. Reserves

	Share premium (a) HK$'000	Statutory reserves (b) HK$'000	Capital reserve (c) HK$'000	Contributed surplus (d) HK$'000	Share option reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
Company							
At 1 July 2004	98,550	–	–	11,527	–	(19,470)	90,607
Net profit attributable to shareholders	–	–	–	–	–	(1,748)	(1,748)
At 30 June 2005	98,550	–	–	11,527	–	(21,218)	88,859
At 1 July 2005	98,550	–	–	11,527	–	(21,218)	88,859
Share options granted to employees	–	–	–	–	2,769	–	2,769
Net profit attributable to shareholders	–	–	–	–	–	(4,601)	(4,601)
At 30 June 2006	98,550	–	–	11,527	2,769	(25,819)	87,027

(a) Under the Companies Law of the Cayman Islands, share premium account is distributable to shareholders subject to the provisions of the Company's Memorandum and Articles of Association, and provided that immediately following the distribution or payment of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

(b) Statutory reserves represent amounts set aside from the profit of Mainland China subsidiaries in accordance with the local statutory requirements, which can be utilised to offset against accumulated losses, or be utilised for issuance of bonus shares.

(c) 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.

(d) Contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Yut Yat Company Limited and the value of net assets of the underlying subsidiaries acquired. At Group level, the amount is reclassified into its components of reserves of the underlying subsidiaries.

36. Reserves *(Continued)*

(e) Property valuation reserve represented the difference between the carrying amount and its fair value of the property and its fair value at the date of change of owner-occupied property to investment property.

(f) At 30 June 2006, the aggregate amount of reserves available for distribution to shareholders of the company was approximately HK$84,258,000 (2005: HK$88,859,000).

37. Related Party Transactions

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

Key management compensation

Remuneration for key management personnel has been disclosed in note 10.

38. Operating Lease Commitments

At 30 June 2006, the Group had total outstanding commitments for future minimum lease payable under non-cancellable operating leases in respect of property, plant and equipment as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**1,397**	767
In the second to fifth year inclusive	**3,328**	402
After the fifth year	**1,248**	67
	5,973	1,236

39. Bank Facilities

As at the balance sheet date, the Group had bank borrowings of approximately HK$201.5 million (2005: HK$129.9 million), (denominated in Renminbi RMB207.5 million) which beared interest at rate ranging from 4.6 % to 8.8 % (2005: 4% to 7.3%) per annum of which approximately HK$Nil million, HK$12.2 million, HK$189.3 million; (2005: HK$ 15.7 million, HK$4.6 million and HK$109.6 million) were secured by pledged bank deposits, certain land and buildings and machinery and inventories, and corporate guarantee of certain subsidiaries and a joint venture respectively.

At the balance sheet date, the Group had bills payable of HK$556.3 million (RMB573 million) (2005: HK$309.5 million, RMB329.6 million) which was denominated in Renminbi the entire amounts was secured by pledged bank deposits of approximately HK$210 million which was denominated in Renminbi.

40. Comparative Figures

Certain comparative figures have been restated or re-classified as a result of the changes in accounting policies and the details of the changes in accounting policies are set out in note 4.