Notes to the Financial Statements

Year ended 30 June 2005

1. GENERAL AND BASIS OF PREPARATION

(a) *Principal Activities*

The company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is investment holding company. The particulars of the principal activities of its principal subsidiaries are set out in note 18.

(b) *Consolidated Financial Statements*

The consolidated financial statements include the financial statements of the Company and its subsidiaries and jointly-controlled entities made up to 30 June.

As subsidiaries and jointly-controlled entity established in Mainland China 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 jointly-controlled entities 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.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Notes to the Financial Statements

Year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES

(a) *Statement of Compliance*

These financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong comply with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention. 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.

(b) *Potential Impact Arising from the Recently Issued Account Standards*

The Hong Kong Institute of Certified Public Accountants has issued a number of new or revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations, (herein collectively referred to as the "new HKFRSs"), which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has early adopted the following new HKFRSs from 1 July 2004 onwards where the agreements signed on 1 January 2005.

HKFRS 3	Business combinations
HKAS 31	Investment in joint ventures
HKAS 36	Impairment of assets (in respect of business combinations)
HKAS 38	Intangible assets (in respect of business combinations)

In previous years, under Statement of Standard Accounting Practice ("SSAP") 30 "Business combination" goodwill was capitalised and amortised on a straight-line basis over its useful economic life and was assessed for an indication for impairment at each balance sheet date. Positive goodwill is measured at cost less any accumulated amortisation and impairment losses. Goodwill on acquisition is amortised using the straight-line method over useful life not more than five years.

In HKFRS 3, goodwill on acquisition is measured at cost less accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that carrying value may be impaired.

Notes to the Financial Statements

Year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Potential Impact Arising from the Recently Issued Account Standards *(continued)*

HKAS 31 states that a "joint control" exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). HKAS 31 allows the venturer to recognise its interest in jointly-controlled entities using either:

(a) Proportionate consolidation – an entity may either:

(i) combine its share of each of the assets, liabilities, income and expenses of the jointly-controlled entity with the similar items, line by line, in the consolidated financial statements; or

(ii) include separate line items for its share of the assets, liabilities, income and expenses of the jointly-controlled entity in the consolidated financial statements; or

(b) Equity method – an entity will initially record its investment in jointly-controlled entities at cost and adjusted thereafter for the post acquisition change in its share of net assets of the jointly-controlled entities.

Proportionate consolidation that combine its share of assets, liabilities, income and expenses with similar items, line by line, has been adopted by the Group. The accounting policy on jointly-controlled entities is set out in note 2(k).

The adoption of HKAS 36 and HKAS 38 had no material effect on the results for the current financial accounting period. The Group has not early adopted other than these new HKFRSs in the financial statements for the year ended 30 June 2005.

The Group has considered the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

(c) Revenue Recognition

(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.

(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 on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

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

Notes to the Financial Statements

Year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) System Development Cost

Expenditure on development of computer system for the Group's own use is capitalised and amortised using the straight-line method over the useful life of 5 years from the date when the computer system is available for use.

(e) Intangible Assets

(i) 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. 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.

In previous years, goodwill on acquisition is amortised using the straight-line method over its estimated useful life of not more than five years. The Group applied the transitional provisions of HKFRS 3 that where the fair values ascribed to the identifiable net assets exceeded the cost of acquisition, such differences were recognised as income in the year of acquisition or over the weighted average useful life of those non-monetary assets acquired.

Notes to the Financial Statements

Year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) ***Intangible Assets*** *(continued)*

(i) *Goodwill (continued)*

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.

(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 amortised on a straight-line basis over a period of not more than 5 years from the date when the product is available for sale to reflect the pattern in which the related economic benefits are recognised.

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.

Notes to the Financial Statements

Year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) ***Intangible Assets*** *(continued)*

(iii) Technical know-how

Expenditure on acquired technical know-how is capitalised and amortised using the straight-line method over the useful life of 5 years, from the date when the technical know-how is available for use.

(iv) Impairment of intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(f) ***Property, Plant and Equipment***

Property, plant and equipment other than investment properties and other properties are stated at cost less accumulated depreciation (see note 2(h)) and accumulated impairment losses (see note 2(i)).

Other properties are interests in land and buildings other than investment properties and are stated at valuation. Independent valuations are performed every year. In the intervening years, the directors review the carrying amount of the other properties and adjustment is made where there has been a material change. Increases in valuation are credited to the other properties revaluation reserve. Decrease in valuation are first set off against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Company.

Notes to the Financial Statements

Year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) Property, Plant and Equipment *(continued)*

The gain or loss on disposal of property, plant and equipment other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(g) 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 payables under such operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective lease.

(ii) 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.

(h) 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 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%

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) 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

– positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over more than 20 years from the date when the asset is available for use or goodwill that is amortised over 20 years from initial recognition, 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).

Notes to the Financial Statements

Year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) *Impairment of Assets (continued)*

(ii) 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 reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

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.

(j) *Subsidiaries*

A subsidiary is a company in which the group or company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Interests in subsidiaries in the balance sheet are stated at cost less identified impairment loss. The results of subsidiaries are accounted to the extent of dividends received and receivable.

(k) *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 when unrealised losses provide evidence of an impairment of the assets transferred.

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

Notes to the Financial Statements

Year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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 Receivable*

Provision is made against trade receivable to the extent that they are considered to be doubtful. Trade receivable in the balance sheet is stated net of such provision.

(n) *Cash Equivalents*

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfil the above criteria.

For the purposes of the cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

Notes to the Financial Statements

Year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) Provisions and Contingent Liabilities

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

(p) Income Tax

(i) Income tax for the period 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 reserves, in which case they are recognised in reserves.

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

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences 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.

Notes to the Financial Statements

Year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(p) 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. The principle of offsetting usually applies to income tax levied by the same tax authority on same taxable entity.

(q) 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 or the amount of obligation cannot be measured reliably.

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 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 inflow is virtually certain, an asset is recognised.

(r) 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.

Notes to the Financial Statements

Year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) ***Employee Benefits*** *(continued)*

(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) *Pension obligations*

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.

(s) ***Translation of Foreign Currencies***

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rate for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

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

(t) ***Borrowing Costs***

Borrowing costs are interests and other costs incurred in connection with the borrowings of funds. The borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement in the year in which they are incurred.

Notes to the Financial Statements

Year ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(u) *Advertising and Promotion Costs*

Costs of advertising and promotion are expensed as incurred.

(v) *Segment Reporting*

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

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format. 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.

Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditure comprises additions to system development cost (Note 14), intangible assets (Note 15) and property, plant and equipment (Note 16), prepayment for purchase of consultancy database and prepayment for purchase of businesses (Note 17).

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.

Notes to the Financial Statements

Year ended 30 June 2005

3. 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; (iii) the provision of plant protection technical services; and (iv) the trading of non-agricultural resources products in Mainland China. Total revenue recognised during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover		
Trading of pesticides, fertilisers and other agricultural products	**1,177,315**	631,537
Sales of plant growth regulatory products, pesticides and fertilisers	**94,587**	187,846
Provision of plant protection technical services	**13,139**	2,644
Trading of non-agricultural resources products	**355,667**	–
	1,640,708	822,027
Other revenue		
Commission income	**220**	79
Interest income	**1,247**	551
	1,467	630
Total revenue	**1,642,175**	822,657

Notes to the Financial Statements

Year ended 30 June 2005

4. 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.

Principal activities are as follows:

Manufacturing operation	–	Manufacturing and selling of plant growth regulatory products, chemical pesticides and bio-pesticides
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 products

Other operations of the Group mainly comprise investment holding which is not of a sufficient size to be reported separately.

Notes to the Financial Statements

Year ended 30 June 2005

4. SEGMENT INFORMATION *(continued)*

(a) ***Business segments*** *(continued)*

Segment information about these business is presented at below:

(i) *2005:*

	Trading operating *HK$'000*	Manufacturing operation *HK$'000*	Consultancy operation *HK$'000*	Non-agricultural resources trading operation *HK$'000*	Other operations *HK$'000*	Elimination *HK$'000*	Group *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	(4,563)		27,525
Interest income							1,247
Finance costs							(9,550)
Taxation							(1,486)
Minority interest							3,775
Net profit attributable to shareholders							21,511
Segment assets	727,895	119,367	41,008	129,688	6,163		1,024,121
Segment liabilities	(565,786)	(8,128)	(5,267)	(102,800)	(812)		(682,793)
Minority interests							(7,116)
Capital expenditure	35,397	963	2	70	–		36,432
Depreciation and amortisation charge	9,787	21,823	3,491	5	27		35,133
Impairment losses	15,164	–	–	–	–		15,164

Notes to the Financial Statements

Year ended 30 June 2005

4. SEGMENT INFORMATION *(continued)*

(a) *Business segments* *(continued)*

(ii) 2004:

	Trading operating *HK$'000*	Manufacturing operation *HK$'000*	Consultancy operation *HK$'000*	Other operations *HK$'000*	Elimination *HK$'000*	Group *HK$'000*
Turnover						
External sales	631,537	187,846	2,644	–		822,027
Inter-segment sales	299	1,611	–	–	(1,910)	–
	631,836	189,457	2,644	–	(1,910)	822,027
Segment results	(19,323)	41,059	1,225	(4,740)		18,221
Interest income						551
Finance costs						(2,337)
Taxation						114
Minority interest						(1,667)
Net profit attributable to shareholders						14,882
Segment assets	296,775	82,764	110,265	115,680		605,484
Segment liabilities	(268,952)	(7,326)	(1,365)	(919)		(278,562)
Unallocated liabilities						(5,693)
Total liabilities						(284,255)
Capital expenditure	225	38,523	150	–		38,898
Depreciation and amortisation charge	17,762	22,303	2,700	135		42,900
Impairment losses	–	–	–	–		–

Notes to the Financial Statements

Year ended 30 June 2005

4. SEGMENT INFORMATION *(continued)*

(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.

5. PROFIT FROM OPERATIONS

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

	2005	2004
	HK$'000	*HK$'000*
Charging		
Advertising and promotion expenses	**10,594**	11,071
Amortisation of intangible assets		
– System development costs	**8,655**	8,669
– Goodwill	**–**	9,830
– Product development costs	**2,022**	1,696
– Technical knowhow	**12,915**	9,925
Auditors' remuneration	**812**	650
Depreciation of property, plant and equipment	**11,541**	12,780
Net exchange loss	**42**	48
Operating leases		
– Land and buildings	**2,353**	3,394
– Motor vehicles	**28**	217
Provision for bad and doubtful debts	**548**	–
Provision for impairment losses of intangible assets		
– Goodwill	**15,164**	–
Research and development expenses	**–**	801
Staff costs, including directors' remunerations *(Note 9)*	**12,812**	10,414
Crediting		
Net provision for bad and doubtful debts written back	**–**	(808)
Net provision for obsolete and slow-moving inventories written back	**(1,323)**	(717)

Notes to the Financial Statements

Year ended 30 June 2005

6. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest expense on:		
Bank loans and overdrafts	**8,640**	1,166
Bills payable	**910**	1,171
	9,550	2,337

7. DIRECTORS' EMOLUMENTS

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

	2005	2004
	HK$'000	*HK$'000*
Executive directors:		
Fees	**–**	–
Salaries and other benefits	**960**	1,440
Contribution to retirement schemes	**24**	12
Independent non-executive directors:		
Fees	**210**	120
Discretionary bonus	**–**	40
	1,194	1,612

The emolument of each of the above directors is less than HK$1,000,000.

During the year, no emoluments were paid by the Group to the directors as a discretionary bonus or any inducement to join on upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any remuneration for the current or prior years.

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the year, the five highest paid individuals included two (2004: two) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (2004: three) individuals during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries and other benefits	**1,734**	820
Contribution to retirement schemes	**59**	29
	1,793	849

The emoluments of each of these three (2004: 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 on an inducement to join or upon joining the Group or as compensation for loss of office.

9. STAFF COSTS (INCLUDING DIRECTORS' REMUNERATIONS)

	2005	2004
	HK$'000	*HK$'000*
Salaries and staff welfare	**12,345**	9,803
Pensions *(Note 10)*	**467**	611
	12,812	10,414

Notes to the Financial Statements

Year ended 30 June 2005

10. 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$467,000 (2004: HK$611,000).

11. TAXATION

	2005	2004
	HK$'000	*HK$'000*
Mainland China enterprise income tax		
– Current year provision	**3,277**	–
– Over-provision in prior year	**(1,791)**	(114)
	1,486	(114)

Notes to the Financial Statements

Year ended 30 June 2005

11. TAXATION *(continued)*

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

	2005	2004
	HK$'000	*HK$'000*
Profit before taxation	**19,222**	16,435
Notional tax on profit before tax of at effective tax rate of 27% (2004: 33%)	**5,256**	5,424
Tax effect of:		
– non-deductible expenses	**5,235**	15,228
– non-taxable income	**(10,554)**	(20,766)
– tax losses arised in current year	**1,549**	–
	1,486	(114)

(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 Group has accumulated tax losses brought forward which exceed the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the relevant jurisdictions.

(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 a Enterprise Income Tax rates from 18% 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%.

Notes to the Financial Statements

Year ended 30 June 2005

11. TAXATION *(continued)*

(c) *(continued)*

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 2005 (2004: Nil) since these enterprises were either at tax loss position or enjoying the full tax exemption treatment during the year.

Other subsidiaries in Mainland China, being domestic enterprises of Mainland China engaging in the trading of agricultural resource products ("trading subsidiaries"), are eligible to apply for reduction or exemption from Mainland China Enterprise Income Tax, subject to the approval of local tax bureaux. Certain of these trading subsidiaries had obtained approvals for granting exemption in Mainland China Enterprise Income Tax for their operations during the year ended 30 June 2004. Other trading subsidiaries which did not obtain the approvals were subject to Mainland China Enterprise Income Tax at rates ranging from 18% to 33%.

Majority of the Group's sales of plant growth regulatory products and bio-pesticides were carried out by Fujian Agrotech and Bio-Engineering, which are exempted from Mainland China value-added tax ("VAT") according to written approvals from the relevant Mainland China tax bureau. The Group's sales of pesticides, fertilisers and other agricultural products are exempted from VAT under Mainland China tax regulations.

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

12. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated net profit attributable to shareholders includes a loss of approximately HK$1,748,000 (2004: loss of approximately HK$1,015,000) dealt with in the financial statements of the Company.

Notes to the Financial Statements

Year ended 30 June 2005

13. 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$21,511,000 (2004: HK$14,882,000) and on the weighted average number of 421,565,000 (2004: 386,757,000) shares in issue during the year.

(b) *Diluted earnings per share*

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

The calculation of diluted earnings per share for the year ended 30 June 2004 was based on the Group's net profit attributable to shareholders of HK$14,882,000 and the weighted average number of ordinary shares of 389,101,000 shares as adjusted for the effect of all dilutive potential shares under the Company's share options on the average number of shares in issue during the year has approximately 2,344,000 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.

(c) *Reconciliations*

	Number of ordinary shares	
	2005	2004
Weighted average number of ordinary shares used in calculating basic earnings per share	–	386,757,000
Deemed issue of ordinary shares for no consideration	–	2,344,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	–	389,101,000

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Year ended 30 June 2005

14. SYSTEM DEVELOPMENT COSTS

	Total
	HK$'000
Cost:	
At 1 July 2004	43,363
Exchange alignment	(162)
At 30 June 2005	43,201
Accumulated amortisation:	
At 1 July 2004	14,454
Charge for the year	8,655
Exchange alignment	(68)
At 30 June 2005	23,041
Net book value:	
At 30 June 2005	20,160
At 30 June 2004	28,909

15. INTANGIBLE ASSETS

	2005	2004
	HK$'000	*HK$'000*
Goodwill	**60,080**	30,724
Product development costs	**16,966**	19,055
Technical know-how	**56,666**	56,624
	133,712	106,403

15. INTANGIBLE ASSETS *(continued)*

(a) Goodwill

	HK$'000
Cost	
Carrying value at 1 July 2004	30,724
Goodwill on acquisition	32,152
Transfer from "Prepayments and deposits"	12,500
Impairment loss for the year	(15,164)
Exchange alignment	(132)
Carrying value at 30 June 2005	60,080

(b) Product development costs

	HK$'000
Cost	
At 1 July 2004	27,831
Exchange alignment	(271)
At 30 June 2005	27,560
Accumulated amortisation and impairment losses	
At 1 July 2004	8,776
Amortisation for the year	2,022
Exchange alignment	(204)
At 30 June 2005	10,594
Net book value	
At 30 June 2005	16,966
At 30 June 2004	19,055

Notes to the Financial Statements

Year ended 30 June 2005

15. INTANGIBLE ASSETS *(continued)*

(c) Technical know-how

	HK$'000
Cost	
At 1 July 2004	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	(303)
At 30 June 2005	86,025
Accumulated amortisation and impairment losses	
At 1 July 2004	16,528
Amortisation for the year	12,915
Exchange alignment	(84)
At 30 June 2005	29,359
Net book value	
At 30 June 2005	56,666
At 30 June 2004	56,624

The Group performed internally valuation for all items in the intangible assets as at 30 June 2005 by the internal expertises, including the executive directors, namely, Mr. Wu Shaoning and Mr. Yang Zhuoya of the Company. According to the internal 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 2005 and they are of the opinion that the underlying values of the intangible assets are not less than carrying values at 30 June 2005.

Notes to the Financial Statements

Year ended 30 June 2005

16. PROPERTY, PLANT AND EQUIPMENT

			The Group		
	Land and Buildings	Machinery	Furniture and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 July 2004	33,079	63,930	1,239	2,611	100,859
Additions	16,970	798	1,053	1,445	20,266
Disposals	–	–	–	(111)	(111)
Transfer	–	38	(38)	–	–
Exchange alignment	(124)	(230)	(6)	(10)	(370)
At 30 June 2005	49,925	64,536	2,248	3,935	120,644
Accumulated depreciation					
At 1 July 2004	3,248	34,351	277	961	38,837
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	4,573	43,544	582	1,493	50,192
Net book value:					
At 30 June 2005	45,352	20,992	1,666	2,442	70,452
At 30 June 2004	29,831	29,579	962	1,650	62,022

The land and 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$13,046,000 and HK$1,878,000 respectively.

Notes to the Financial Statements

Year ended 30 June 2005

17. PREPAYMENTS AND DEPOSITS

	2005	2004
	HK$'000	*HK$'000*
Prepayment for purchase of property, plant and equipment	**4,870**	–
Prepayment for consultancy database	**–**	7,541
Prepayment for purchase of businesses	**6,104**	11,312
Payment on acquisition of a subsidiary	**–**	1,188
	10,974	20,041

18. INTERESTS IN SUBSIDIARIES

	The Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted investments, at cost	**11,727**	11,727
Due therefrom subsidiaries	**120,018**	121,874
	131,745	133,601

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.

Notes to the Financial Statements

Year ended 30 June 2005

18. INTERESTS IN SUBSIDIARIES *(continued)*

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.*	Mainland China	RMB50,000,000	100%	Investment holding and provision of agricultural technical support services
Fuzhou Agrotech Crop Science Co., Ltd.*	Mainland China	HK$40,000,000	100%	Provision of agricultural technical support services
Fujian Agrotech Bio-Engineering Co., Ltd.*	Mainland China	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
福建南平市浩倫作物科學有限公司**	Mainland China	RMB10,000,000	90%	Trading of pesticides, fertilisers other agricultural products and provision of agricultural technical support services

Notes to the Financial Statements

Year ended 30 June 2005

18. 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)*				
山西超大浩倫農業科技有限公司**	Mainland China	RMB3,000,000	100%	Trading of pesticides, fertilisers and other agricultural products
江西浩倫農業科技有限公司**	Mainland China	RMB5,000,000	100%	Trading of pesticides, fertilisers and other agricultural products
湖南浩倫農業科技有限公司**	Mainland China	RMB50,000,000	100%	Trading of pesticides, fertilisers and other agricultural products
江蘇浩倫農業科技有限公司**	Mainland China	RMB3,000,000	95.5%	Trading of pesticides, fertilisers and other agricultural products
海南浩倫農業科技有限公司**	Mainland China	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**	Mainland China	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**	Mainland China	RMB1,000,000	70%	Trading of pesticides, fertilisers and other agricultural products

Notes to the Financial Statements

Year ended 30 June 2005

18. 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)*				
漳州市浩倫農業科技有限公司**	Mainland China	RMB1,000,000	70%	Trading of pesticides, fertilisers and other agricultural products
福建省邵武市浩倫農資有限公司**	Mainland China	RMB500,000	70%	Trading of pesticides, fertilisers and other agricultural products
吉安市浩倫農業科技有限公司**	Mainland China	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**	Mainland China	RMB3,000,000	70%	Trading of pesticides, fertilisers and other agricultural products
太原市浩倫科力農業科技有限公司**	Mainland China	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**	Mainland China	RMB500,000	70%	Trading of pesticides, fertilisers and other agricultural products
常德浩倫農業科技有限公司**	Mainland China	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**	Mainland China	RMB500,000	85%	Trading of pesticides, fertilisers and other agricultural products

18. 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)*				
荊門市浩淪農科磷化有限公司**	Mainland China	RMB3,000,000	100%	Manufacturing and selling of fertilizers
福州浩倫東方貿易有限公司**	Mainland China	RMB10,000,000	100%	General trading export
福州澤林貿易有限公司**	Mainland China	RMB1,000,000	70%	Trading of coal
山東浩倫農業科技有限公司**	Mainland China	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**	Mainland China	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**	Mainland China	RMB15,000,000	80%	Not yet commence business
濟南浩倫安耐特化工有限公司**	Mainland China	RMB1,800,000	70%	Trading of pesticides, fertilizers and other agricultural products
山西安豐農業科技有限公司**	Mainland China	RMB1,000,000	70%	Trading of pesticides, fertilizers and other agricultural products

* *Sino-foreign owned enterprise*

** *Limited liability companies*

19. INTERESTS IN A JOINTLY-CONTROLLED ENTITY

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

Name	**Country of incorporation/ registration and operation**	**Principal activities**	**Effective equity interest held by company**
Held indirectly:			
湖南湘農農資貿易有限公司	Mainland China	Trading of pesticides, fertilizers and other agricultural products	52%

For the year ended 30 June 2005, the key consolidated financial information of the jointly-controlled entities is as follows:

	2005	2004
	HK$'000	*HK$'000*
Non-current assets	**25,117**	–
Current assets	**59,079**	–
Current liabilities	**(24,037)**	–
Turnover	**164,382**	–
Profit for the period	**6,170**	–

20. INVENTORIES

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**6,700**	2,054
Work in progress	**715**	300
Finished goods	**93,783**	58,821
	101,198	61,175
Less: Provision for obsolete and slow-moving inventories	**(238)**	(1,561)
	100,960	59,614

At 30 June 2005, the carrying amount of inventories that are carried at net realisable value amounted to HK$89,092,000 (2004: HK$57,260,000).

Notes to the Financial Statements

Year ended 30 June 2005

21. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits for purchase of inventories	**266,112**	106,988	**–**	–
Due from minority shareholders of subsidiaries (a)	**1,533**	–	**–**	–
Prepayments for testing of the Group's agricultural products in Mainland China	**–**	838	**–**	–
Prepayments for promotion of the Group's agricultural products	**–**	2,662	**–**	–
Others	**84,592**	25,606	**72**	72
	352,237	136,094	**72**	72

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

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22. TRADE 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 ageing analysis of trade receivables is as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
0-30 days	**119,081**	32,933
31-60 days	**25,974**	15,535
61-90 days	**13,670**	13,140
91-180 days	**6,682**	16,492
Over 180 days	**6,005**	4,545
	171,412	82,645
Less: Provision for bad and doubtful debts	**(3,363)**	(2,815)
	168,049	79,830

23. DUE FROM/(TO) DIRECTORS

Executive directors	**Due from at end of the year**	**Due from beginning of the year**	**Maximum outstanding balance during the year**	
			2005	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Wu Shaoning	–	142	–	142
Yang Zhuoya	–	471	–	471
	–	613	–	613

The amounts due from/(to) directors are unsecured, interest-free and repayable within twelve months.

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24. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSITS

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Cash and bank balances	**53,368**	46,066
Restricted bank deposits	**114,209**	65,892
	167,577	111,958

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

At 30 June 2005, approximately HK$144,388,000 (2004: HK$84,000,000) of the Group's cash and bank balances and restricted bank deposits were denominated in Renminbi and kept in Mainland China. 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 Mainland China.

25. INTEREST BEARING BANK LOANS, SECURED

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Interest-bearing bank loans		
– secured	**129,901**	47,794
The analysis of the above balance is as follows:		
Bank loans		
– After 1 year but within 5 years	**2,817**	1,885
Current portion of bank loans	**127,084**	45,909
	129,901	47,794

The interest-bearing bank loans are payable within five years. Interest is charged on the outstanding balance at the range of 4% to 7.3% per annum.

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Year ended 30 June 2005

26. TRADE AND BILLS PAYABLE

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

	The Group	
	2005	2004
	HK$'000	*HK$'000*
0-30 days	**139,229**	33,200
31-60 days	**67,370**	21,862
61-90 days	**67,147**	30,504
91-180 days	**158,277**	113,978
	432,023	199,544

27. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accrued operating expenses	**3,970**	5,312	**711**	789
Accrued advertising and promotion expenses	**–**	453	**–**	–
Accrued finance costs	**–**	–	**–**	–
Accrued pension cost *(Note 10)*	**533**	10	**–**	–
Receipts in advance	**64,500**	10,519	**–**	–
Due to minority shareholders of subsidiaries (a)	**9,160**	484	**–**	–
Others	**34,878**	14,326	**–**	–
	113,041	31,104	**711**	789

(a) As at 30 June 2005, approximately HK$9,160,000 of the amounts due to minority shareholders of subsidiaries (2004: HK$484,000) were unsecured, interest-free and repayable within twelve months.

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Year ended 30 June 2005

28. SHARE CAPITAL

	Number of ordinary shares (in thousands)	*HK$'000*
Authorised:		
At 1 July 2003, 30 June 2004 and 30 June 2005, ordinary shares of HK$0.10 each	500,000	50,000
Issued and fully paid:		
At 1 July 2003, ordinary shares of 0.10 each	351,565	35,156
Placing (a)	70,000	7,001
At 30 June 2004 and at 30 June 2005, ordinary shares of HK$0.10 each	421,565	42,157

(a) On 18 December 2003, Mr. Wu Shaoning ("Mr. Wu"), a director and a substantial shareholder of the Company, entered into an unconditional placing agreement with the Company and ICEA Capital Limited, a placing agent, in respect of the placing of up to 70,000,000 existing shares of the Company by Mr. Wu through ICEA Capital Limited to independent placees on a best efforts basis at a placing price of HK$0.50 per share (the "Placing").

On the same date, Mr. Wu entered into a conditional subscription agreement with the Company in respect of the subscription of up to 70,000,000 new shares of the Company by Mr. Wu at a price of HK$0.50 per share (the "Subscription").

The Placing was completed on 23 December 2003 and a total of 70,000,000 existing shares were placed to independent placees. The subscription was completed on 30 December 2003 and a total of 70,000,000 new shares were subscribed by Mr. Wu. The net proceeds of approximately HK$34 million would be used as general working capital of the Company in respect of its trading operations in Mainland China.

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29. RESERVES

	Share premium (a) HK$'000	Statutory reserves (b) HK$'000	Capital reserve (c) HK$'000	Contributed surplus (d) HK$'000	Exchange reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
Group							
At 1 July 2003	71,468	8,006	1,188	–	282	149,933	230,877
Placing *(Note 28)*	27,082	–	–	–	–	–	27,082
Exchange alignment on translation of the financial statements of subsidiaries	–	–	–	–	(160)	–	(160)
Net profit attributable to shareholders	–	–	–	–	–	14,882	14,882
At 30 June 2004	98,550	8,006	1,188	–	122	164,815	272,681
At 1 July 2004	98,550	8,006	1,188	–	122	164,815	272,681
Exchange alignment on translation of the financial statements of subsidiaries	–	–	–	–	(2,137)	–	(2,137)
Net profit attributable to shareholders	–	–	–	–	–	21,511	21,511
At 30 June 2005	98,550	8,006	1,188	–	(2,015)	186,326	292,055
Company							
At 1 July 2003	71,468	–	–	11,527	–	(18,455)	64,540
Placing *(Note 28)*	27,082	–	–	–	–	–	27,082
Net loss attributable to shareholders	–	–	–	–	–	(1,015)	(1,015)
At 30 June 2004	98,550	–	–	11,527	–	(19,470)	90,607
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

Notes to the Financial Statements

Year ended 30 June 2005

29. RESERVES *(continued)*

(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 prior year 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.

30. OPERATING LEASE COMMITMENTS

At 30 June 2005, 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	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**767**	1,321
In the second to fifth year inclusive	**402**	133
After the fifth year	**67**	–
	1,236	1,454

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Year ended 30 June 2005

31. CAPITAL AND OTHER COMMITMENTS

	2005	2004
	HK$'000	*HK$'000*
Contracted but not provided for:		
Technical know-how	–	5,656
Promotion and advertising expenses	–	2,357
	–	8,013

32. BANK FACILITIES

As at the balance sheet date, the Group had bank borrowings of approximately HK$129.9 million (2004: HK$48 million), (denominated in Renminbi RMB138.3 million) which beared interest at rate ranging from 4% to 7.3% (2004: 4.5% to 7.5%) per annum of which approximately HK$15.7 million, HK$4.6 million, HK$109.6 million; (2004: HK$16.7 million, HK$4.9 million and HK$116.7 million) were secured by pledged bank deposit of HK$17 million, certain land and buildings and machinery of the Group and corporate guarantee of certain subsidiaries respectively.

At the balance sheet date, the Group had bills payable of HK$309.5 million (RMB329.6 million) (2004: HK$156 million, RMB165 million) which was denominated in Renminbi, and the entire amount was secured by pledged bank deposits of approximately HK$97.2 million which was also denominated in Renminbi.