



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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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 recognise 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.



Notes to the Financial Statements

30 June 2006

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 |
| Total increase/ (decrease) in profit | – | – |



Notes to the Financial Statements

30 June 2006

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 occurring 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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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).



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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).



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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 or 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.



Notes to the Financial Statements

30 June 2006

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 decrease 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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| 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



Notes to the Financial Statements

30 June 2006

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 | – |
| | <u>1,600,883</u> | <u>223,565</u> | <u>21,475</u> | <u>490,226</u> | <u>(49,894)</u> | <u>2,286,255</u> |
| Segment results | <u>17,533</u> | <u>41,584</u> | <u>14,118</u> | <u>6,239</u> | | <u>79,474</u> |
| Unallocated corporate expenses | | | | | | <u>(7,442)</u> |
| Operating profit | | | | | | 72,032 |
| Interest income | | | | | | 12,184 |
| Finance costs | | | | | | (17,490) |
| Taxation | | | | | | <u>(6,048)</u> |
| Net profit | | | | | | <u>60,678</u> |
| Segment assets | 1,091,313 | 144,200 | 31,856 | 166,262 | | 1,433,631 |
| Unallocated corporate assets | | | | | | <u>4,547</u> |
| | | | | | | <u>1,438,178</u> |
| Segment liabilities | 858,950 | 34,354 | 3,968 | 115,551 | | 1,012,823 |
| Unallocated corporate liabilities | | | | | | <u>1,280</u> |
| | | | | | | <u>1,014,103</u> |
| Capital expenditure | <u>23,724</u> | <u>2,060</u> | <u>34</u> | <u>52</u> | – | <u>25,870</u> |
| Depreciation and amortisation charge | <u>9,801</u> | <u>19,965</u> | <u>2,039</u> | <u>20</u> | – | <u>31,825</u> |
| Impairment losses | – | – | – | 3,330 | – | <u>3,330</u> |



Notes to the Financial Statements

30 June 2006

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) | – |
| | <u>1,182,238</u> | <u>97,648</u> | <u>13,139</u> | <u>355,667</u> | <u>(7,984)</u> | <u>1,640,708</u> |
| Segment results | <u>4,644</u> | <u>20,363</u> | <u>5,747</u> | <u>1,334</u> | | <u>32,088</u> |
| Unallocated corporate expenses | | | | | | <u>(4,563)</u> |
| Operating profit | | | | | | 27,525 |
| Interest income | | | | | | 1,247 |
| Finance costs | | | | | | (9,550) |
| Taxation | | | | | | <u>(1,486)</u> |
| Net profit | | | | | | <u>17,736</u> |
| Segment assets | 727,895 | 119,367 | 41,008 | 129,688 | | 1,017,958 |
| | | | | | | <u>6,163</u> |
| | | | | | | <u>1,024,121</u> |
| Segment liabilities | (565,786) | (8,128) | (5,267) | (102,800) | | (681,981) |
| | | | | | | <u>(812)</u> |
| | | | | | | <u>682,793</u> |
| Capital expenditure | <u>35,397</u> | <u>963</u> | <u>2</u> | <u>70</u> | – | <u>36,432</u> |
| Depreciation and amortisation charge | 9,787 | 21,823 | 3,491 | 5 | | 35,106 |
| | | | | | | <u>27</u> |
| | | | | | | <u>35,133</u> |
| Impairment losses | <u>15,164</u> | <u>–</u> | <u>–</u> | <u>–</u> | – | <u>15,164</u> |

(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.



Notes to the Financial Statements

30 June 2006

8. Profit from Operations

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

| | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| 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 (<i>Notes 10 and 12</i>) | 20,607 | 12,812 |
| Crediting | | |
| Net provision for obsolete and slow-moving inventories written back | – | (1,323) |

9. Finance Costs

| | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| 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 |



Notes to the Financial Statements

30 June 2006

10. Directors' Emoluments

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

| | 2006 HK\$'000 | 2005 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:

| Name of directors | For the year ended 30 June 2006 | | | | Total HK\$'000 |
|--|---------------------------------|--|--|---|-------------------|
| | Fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Equity- settled share-based payment HK\$'000 | Retirement scheme contributions 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 |



Notes to the Financial Statements

30 June 2006

10. Directors' Emoluments (Continued)

| Name of directors | For the year ended 30 June 2005 | | | |
|--|---------------------------------|---|--|--------------------------|
| | Fees <i>HK\$'000</i> | Salaries, allowances and benefits in kind <i>HK\$'000</i> | Retirement scheme contributions <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| 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 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|-------------------------------------|-------------------------|-------------------------|
| 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.



Notes to the Financial Statements

30 June 2006

12. Staff Costs (Including Directors' Emoluments)

| | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Salaries and staff welfare | 17,296 | 12,345 |
| Retirement scheme contributions (<i>Note 13</i>) | 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 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| 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 |



Notes to the Financial Statements

30 June 2006

14. Taxation (Continued)

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

| | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| 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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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 |



Notes to the Financial Statements

30 June 2006

18. Goodwill

| | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| 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.



Notes to the Financial Statements

30 June 2006

19. Other Intangible Assets

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

(a) Product development costs

| | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| 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 |



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

20. Property, Plant and Equipment

| | The Group | | | | |
|--------------------------------------|------------------------------|------------------------------|---|--------------------------------------|--------------------------|
| | Buildings <i>HK\$'000</i> | Machinery <i>HK\$'000</i> | Furniture and office equipment <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| 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.



Notes to the Financial Statements

30 June 2006

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 |
| Interest in leasehold land held for own use under operating lease | 43,621 13,170 | 32,086 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 |



Notes to the Financial Statements

30 June 2006

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 |



Notes to the Financial Statements

30 June 2006

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 and 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 |



Notes to the Financial Statements

30 June 2006

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 |
| 荊門市浩倫農科磷化有限公司** | 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 |



Notes to the Financial Statements

30 June 2006

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 |
| 福州浩倫技術諮詢有限公司** | 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% |



Notes to the Financial Statements

30 June 2006

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 |
| <i>Less: Impairment loss for obsolete and slow-moving inventories</i> | (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 |



Notes to the Financial Statements

30 June 2006

27. Other Receivables, Deposits and Prepayments

| | The Group | | The Company | |
|--|------------------|------------------|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 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 HK\$'000 | 2005 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 | |
|---------------------|---------------------------------|------------------------------------|--|------------------|
| | HK\$'000 | HK\$'000 | 2006 HK\$'000 | 2005 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.



Notes to the Financial Statements

30 June 2006

30. Bank Balances and Cash and Restricted Bank Deposits

| | The Group | |
|---|------------------|------------------|
| | 2006 HK\$'000 | 2005 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 HK\$'000 | 2005 HK\$'000 |
| Interest-bearing bank loans | | |
| – secured (<i>note 39</i>) | 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 '000 | 2005 '000 |
| Euro | EUR18 | – |
| United State Dollars | USD2,339 | USD107 |



Notes to the Financial Statements

30 June 2006

32. Trade and Bills Payable

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

| | The Group | |
|---------------|------------------|------------------|
| | 2006 HK\$'000 | 2005 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 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Accrued operating expenses | 5,072 | 3,970 | 856 | 711 |
| Accrued pension cost (<i>Note 10</i>) | 545 | 533 | – | – |
| Receipts in advance | 50,328 | 64,500 | – | – |
| Due to minority shareholders of subsidiaries (<i>a</i>) | 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 |
| | 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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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.

| | Exercise price HK\$ | Number of options | | | Outstanding at 30.6.2006 |
|-----------|------------------------|---|---|--|-----------------------------|
| | | 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 | |
| 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:

| | Exercise price HK\$ | Number of options | | | Outstanding at 30.6.2006 |
|-----------|------------------------|--------------------------|-------------------------|--|-----------------------------|
| | | Granted on 16.12.2005 | Granted on 23.5.2006 | Lapsed/ Exercised during the year | |
| 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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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.



Notes to the Financial Statements

30 June 2006

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 HK\$'000 | 2005 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 bore 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 amount 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.