



China Agrotech Holdings Limited

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

Annual Report
2008



Nitrogenous fertilizer

Phosphorous fertilizer

Potash fertilizer

Compound fertilizer

Pesticides



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Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Michael Wu Chun Wah

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Tong Hing Wah, *CPA, FCCA*

QUALIFIED ACCOUNTANT

Tong Hing Wah, *CPA, FCCA*

AUTHORISED REPRESENTATIVES

Wu Shaoning
Tong Hing Wah, *CPA, FCCA*

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDITORS

CCIF CPA Limited

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2706, 27th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Five Years Financial Summary

	Years ended 30 June				
	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
Turnover	822,027	1,640,708	2,286,255	2,552,044	2,894,984
Cost of sales	(724,755)	(1,525,180)	(2,122,132)	(2,317,068)	(2,608,179)
Gross profit	97,272	115,528	164,123	234,976	286,805
(Decrease)/increase in fair value of investment properties	—	—	818	5,064	(9,594)
Other income	630	1,467	18,596	24,682	41,999
Distribution costs	(33,681)	(30,412)	(37,618)	(74,231)	(98,335)
Administrative expenses	(45,449)	(57,811)	(61,703)	(73,261)	(75,014)
Profit from operations	18,772	28,772	84,216	117,230	145,861
Finance costs	(2,337)	(9,550)	(17,490)	(31,513)	(43,803)
Profit before taxation	16,435	19,222	66,726	85,717	102,058
Income tax	114	(1,486)	(6,048)	(8,839)	(15,788)
Profit for the year	16,549	17,736	60,678	76,878	86,270
Attributable to:					
Equity shareholders of the Company	14,882	21,511	61,627	80,592	82,423
Minority interests	1,667	(3,775)	(949)	(3,714)	3,847
	16,549	17,736	60,678	76,878	86,270

	As at 30 June				
	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
Total non-current assets	217,375	234,772	229,276	228,180	235,729
Total current assets	388,109	789,349	1,208,902	1,880,139	2,115,613
Total current liabilities	(282,370)	(679,976)	(1,013,132)	(1,545,928)	(1,654,745)
Net current assets	105,739	109,373	195,770	334,211	460,868
Total assets less current liabilities	323,114	344,145	425,046	562,391	696,597
Non-current liabilities	(1,885)	(2,817)	(971)	—	—
Net assets	321,229	341,328	424,075	562,391	696,597
Total equity attributable to equity shareholders of the Company	314,838	334,212	417,762	555,967	678,950
Minority interests	6,391	7,116	6,313	6,424	17,647
Total equity	321,229	341,328	424,075	562,391	696,597

Chairman's Statement

I am pleased to present to the Shareholders the annual results of China Agrotech Holdings Limited ("China Agrotech" or the "Company") and its subsidiaries (collectively the "Group") for the year ended 30 June 2008 for their consideration.

TURNOVER AND PROFITS

For the year ended 30 June 2008, the consolidated turnover of the Group was approximately HK\$2,894,984,000 (2007: HK\$2,552,044,000), representing a growth of approximately 13%; and the profit attributable to equity shareholders of the Company was approximately HK\$82,423,000 (2007: HK\$80,592,000), representing an increase of approximately 2%. Net profit, excluding the impact from the change in fair value of the investment properties, was HK\$92,017,000 (2007: HK\$75,528,000), representing an increase of 22%.

BUSINESS REVIEW

During the year under review, albeit the volatile business environment, China Agrotech has been able to capture current market opportunities thanks to the extensive management and marketing experiences of all our staff, thereby driving sales for the year to reach another record high of HK\$2.89 billion. Under appropriate allocation of resources, all product segments have recorded satisfactory returns. After a decade of dedicated efforts, the Group has successfully established itself as a leading distributor and retailer in the agricultural resources industry of the PRC.

Precise approach to corporate operation and decisive adjustment of strategy are the keys to success under such ever-changing market and state policies. With its strategy of pursuing stable growth through cautious development, China Agrotech's results have outperformed the peers. During the financial year under review, the Group's distribution network was further strengthened by the successful implementation of the centralized purchase and distribution strategy. Market coverage and penetration rates continued to grow and a higher recognition of the Group's brand name was gained. Moreover, the Group has been adjusting its strategies in respect of product manufacturing, sales and marketing from time to time so as to accommodate the constantly changing, highly competitive market. During the year, given the substantial increase in the prices of agricultural resources products across the board, the Group placed maximization of realized gross profits as a prime target. As such, the Group stocked up inventories at the initial stage of the rising trend when market prices were still low and reduced the turnover of inventories. As a result, agricultural resources products achieved a 21% growth in realized gross profits to HK\$222 million, and the gross profit margins of various agricultural resources products improved significantly. In general, the Group has achieved a gross profit of approximately HK\$287 million during the year, representing a growth of approximately 22% as compared to that of last year. The overall gross profit margin grew to approximately 9.9% this year from about 9.2% last year, while the average gross profit margin of its agricultural resources product increased from approximately 8.8% last year to approximately 10.7% this year.

Since the first half of 2008, the PRC government has been tightening its macro-economic control, under which price limits, increase of tariffs and other measures were implemented in the agricultural resources industry in order to prevent upsurge of prices. In response to such measures, together with the occurrence of natural disasters, the Group has made corresponding adjustments to sales strategies. The sales of nitrogenous fertilizers and pesticides have suffered pressure due to the price fluctuation and the increasing production costs respectively. In view of that, the Group decreased the dealings of these two major products so as to minimize the risk. In respect of phosphorous fertilizers, potash fertilizers and compound fertilizers, through active development of supply and sales networks, and further realization of its economy of scale by the sales network, these products have improved remarkably in terms of sales and will become the key areas of further resources allocation by the Group.

Chairman's Statement

CORPORATE STRATEGIES AND PROSPECTS

The PRC government has been striving to deepen the agricultural reform in order to increase the income of farmers. In fact, the central government of the PRC will have committed more than RMB500 billion to address the “three rural issues” (i.e. rural areas, farmers and agriculture) during 2008, up 30% as compared to that of last year. The state policy of supporting and benefiting agricultural sector has maintained healthy growth on the demand of agricultural resources products. Besides, the rising prices of agricultural products worldwide will help bring in more support from the government.

The accelerated deterioration of the global financial markets in the third quarter of 2008 has put the world economy to severe test, consequently victimizing many industries. Fortunately, China can be seen as one of the least affected countries with its agricultural sector being less susceptible. The agricultural resources product market witnessed significant growth during the year under review, but looks set to face a downturn during the fourth quarter of 2008, offsetting the increase recorded previously. Therefore, the Group will in the coming year strengthen its risk management and take a prudent approach to pursue stable growth by staving off risks.

In the coming year, while carrying out macro-economic austerity measures, the PRC Government will continue to reinforce its commitment and supportive policy to address the “three rural issues”, thus providing a favourable external environment for the Group and benefiting the agricultural resources sector in the long run.

Looking forward, apart from continuing with the Group's centralised purchase and distribution strategy and product mix optimisation policy, we will also strive to develop the upper stream businesses, strengthen the resources supply chains and further reduce operating costs, as well as solidifying the strategic partnerships with upstream brand-names suppliers in order to explore high quality resources and tap into the new areas of phosphorous fertilizers and pesticides. The Group will also continue to deepen the sales channels of its products and expand its distribution network into the North-eastern and Southern China. We are optimistic about the future of the Group and will continue to dedicate to becoming the leading agricultural resources products and service provider in the PRC so as to position well for the next breakthrough.

APPRECIATION

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

Wu Shaoning
Chairman

Hong Kong, 27 October 2008

Management Discussion and Analysis

OVERALL RESULTS

For the year ended 30 June 2008, the Group's consolidated turnover was approximately HK\$2,894,984,000 (2007: HK\$2,552,044,000) and net profit attributable to equity shareholders of the Company was approximately HK\$82,423,000 (2007: HK\$80,592,000), representing a growth of about 13% and 2% respectively as compared to those of the previous financial year. Net profit, excluding the impact from the change in fair value of the investment properties, was HK\$92,017,000 (2007: HK\$75,528,000), representing an increase of 22%.

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

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

	2008		2007	
	Turnover HK\$'000	Percentage of the total turnover	Turnover HK\$'000	Percentage of the total turnover
Agricultural resources operation				
nitrogenous fertilizer	677,032	23%	796,957	31%
phosphorous fertilizer	299,614	10%	175,274	7%
potash fertilizer	202,186	7%	142,244	6%
compound fertilizer	519,988	18%	467,938	18%
pesticides	368,876	13%	490,734	19%
Agricultural resources products (subtotal)	2,067,696	71%	2,073,147	81%
Trading of non-agricultural resources products	827,288	29%	478,897	19%
Total	2,894,984	100%	2,552,044	100%

Aggregate sales volume of fertilizers, including nitrogenous fertilizer, phosphorous fertilizer, potash fertilizer and compound fertilizer, decreased by around 9% from approximately 970,000 tonnes in the previous year to approximately 880,000 tonnes this year. The turnover for this year was approximately HK\$1.699 billion, representing a growth of about 7% as compared to approximately HK\$1.582 billion in the previous year.

For pesticides, turnover dropped by approximately 25% from approximately HK\$491 million for the previous year to approximately HK\$369 million this year.

Turnover from the trading of non-agricultural resources products significantly increased from approximately HK\$480 million last year to approximately HK\$830 million this year.

Management Discussion and Analysis

The realized gross profit amounted to approximately HK\$287 million and net profit (excluding the impact from the change in fair value of the investment properties) was approximately HK\$92,017,000, representing a growth of approximately 22% and 22% respectively as compared to those of the previous year. Gross profit margin in general increased from approximately 9.2% in the previous year to approximately 9.9% this year. The overall improvement of gross profit margin were attributable to the lower procurement and operating costs as a result of continuous reinforcement of the centralised purchase and distribution strategy, in combine with utilizing its capital advantage to stock up the inventories at a lower price and reducing the turnover of the inventories to increase the realised gross profit when the price of agricultural resources products surged at the preliminary period.

AGRICULTURAL RESOURCES OPERATION

(1) Nitrogenous fertilizer

Being the most commonly used fertilizer, the supply of nitrogenous fertilizer outstrips its demand, characterizing the related industry as volume-oriented with thin gross profit margins. Nitrogenous fertilizer is the major product of the Group in terms of both sales volume and turnover. Thanks to the Group's good and trusting relationship with both upstream and downstream companies developed over the years, alliances with reputable upstream suppliers which were demand by its sufficient capital, strengthened supply chain management, centralised purchase and distribution policy, as well as expanded distribution network, the Group managed to maintain a stable gross profit margin of approximately 3.7% amid market fluctuations. However, in response to the changes in price of nitrogenous fertilizer this year and price restriction imposed by the government, the Group cut down the dealings of nitrogenous fertilizer in order to minimize operational risks. As such, sales volume of nitrogenous fertilizer decreased to approximately 360,000 tonnes (2007: 510,000 tonnes). Turnover dropped by 15% to HK\$677 million (2007: HK\$797 million), accounting for approximately 32% and 23% of the turnover of agricultural resources products segment and the consolidated turnover of the Group respectively.

(2) Phosphorous fertilizer

Although the market demand had been basically met by the gradual increase in the production capacity of phosphorous fertilizer in the PRC, there is an increasing trend of shortage of supply in phosphorous resources. Capitalizing on its own phosphorous fertilizer plant and the revised product mix of phosphorous fertilizer by increasing the production of high density phosphorous fertilizer and decreasing that of low density phosphorous fertilizer, during the year the Group was able to boost its sales volume of phosphorous fertilizer to approximately 220,000 tonnes (2007: 170,000 tonnes), push the turnover to considerably rise by 71% to HK\$300 million (2007: HK\$175 million) and increase the gross profit margin from 10% for the previous year to 12.7% this year.

(3) Potash fertilizer

Being a scarce resource, 70% of potash fertilizer in the PRC is imported with continuing surge in its market price. During the year, the Group took advantage of centralised purchase and its own network to continue the expansion of the operation of potash fertilizer, especially those from Russia. As the market price continued to increase, the Group adopted its main strategy of maximising gross profit, utilizing its capital advantage and riding the market trend, as well as stocked up inventories before selling. Hence, sales volume of potash fertilizer for this year reached 70,000 tonnes, which approximated that of the previous year, while turnover dramatically increased by 42% to approximately HK\$202 million (2007: HK\$142 million). Gross profit margin also remarkably increased from approximately 4.3% for the previous year to approximately 7.6% this year.

Management Discussion and Analysis

(4) Compound fertilizer

The Group provides specific compound fertilizer for different crops through production from its own plant and through procurement. During the year, the Group increased the production and distribution of compound fertilizer products to accommodate market demand. Sales volume increased from approximately 220,000 tonnes for the previous year to approximately 230,000 tonnes this year. Turnover increased by approximately 11% to approximately HK\$520 million (2007: HK\$468 million), while gross profit margin significantly increased from approximately 8.4% for the previous year to approximately 12.6% this year.

(5) Pesticides

For pesticides, the Group has a large variety of high-value-added pesticide products which are developed through collaboration with different research institutes. Those pesticide products supplied to the market are either manufactured by the Group's own plants or through procurement and distribution. During this year, turnover dropped by approximately 25% to approximately HK\$369 million (2007: HK\$491 million) because the Group, in view of the mounting pressure on production cost, outsourced part of the production processes and scaled down production. However, attributable to the expansion on high-margin products through the rationalisation on product mix structure and sales strategy by the Group, the average gross profit margin of pesticides successfully increased from approximately 19% for the previous year to approximately 21% this year.

TRADING OF NON-AGRICULTURAL RESOURCES PRODUCTS

For the trading of non-agricultural resources products, in response to the appreciation of Renminbi, the Group reduced export trading to minimize foreign exchange risk while kept on increasing bulk import trading of resource-related products and the domestic trading of coal, hence remarkably boosting turnover to approximately HK\$827 million (2007: HK\$479 million). With ample capital and established sale channels, the Group significantly increased its gross profit and operating profit to approximately HK\$65.27 million (2007: HK\$52.26 million) and approximately HK\$20.19 million (2007: HK\$14.41 million) respectively.

LIQUIDITY AND FINANCIAL RESOURCES

Financial resources

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

As at 30 June 2008, cash and bank balances and restricted bank deposits were approximately HK\$403,849,000 of which approximately HK\$591,000, approximately HK\$382,044,000, and approximately HK\$21,214,000 denominated in Hong Kong dollars, Renminbi and US dollars respectively.

With respect to foreign exchange exposure, as the Group's earnings and borrowings are primarily denominated in Renminbi and the exchange rates between Renminbi and Hong Kong dollar/US dollar remained steady during the year under review, its exposure to foreign exchange rate fluctuations is insignificant. During the year under review, the Group had not used any financial instruments for hedging purposes.

Management Discussion and Analysis

Borrowings and banking facilities

As at 30 June 2008, the Group had bank borrowings of approximately HK\$388,100,000 (approximately HK\$309,500,000 denominated in Renminbi and approximately HK\$78,600,000 denominated in US dollars) bearing interest at rates ranging from 5.8% to 10.0% per annum, of which approximately HK\$11.4 million was secured by certain land and buildings of the Group, approximately HK\$18.7 million by assets of certain minority shareholders, and the balance by the guarantees provided by certain subsidiaries and/or a director, respectively.

At as 30 June 2008, the Group had bills payable of approximately HK\$771 million which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of approximately HK\$211 million which were also denominated in Renminbi.

As at 30 June 2008, the Group's gearing ratio remained at approximately 57%. This was based on the division of bank borrowings by total equity attributable to equity shareholders of the Company as at 30 June 2008. The Directors, taking into account of nature and scale of operations of the Group, considered that the gearing ratio as at 30 June 2008 was healthy.

Commitments

As at 30 June 2008, the Group had outstanding contracted capital commitments in respect of construction of manufacturing facilities of approximately HK\$9,645,000. As at 30 June 2008, the Group had operating lease commitments of approximately HK\$5,026,000.

Contingent liabilities

As at 30 June 2008, the Group had no material contingent liabilities.

REMUNERATION POLICIES AND SHARE OPTION SCHEME

The Group incurred expenditure on salaries and other remunerations of approximately HK\$28 million in total with an average workforce of about 1,200 during the year ended 30 June 2008.

Remuneration packages comprise salary, mandatory provident fund and year-end bonus based on individual merits. A share option scheme (the "Scheme") was adopted by the Company pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31 December 2001. The Scheme limit was refreshed pursuant to a resolution passed at the extraordinary general meeting of the Company held on 1 March 2006. During the year ended 30 June 2008, no option in respect of shares of the Company was granted to the relevant participants under the Scheme (2007: nil).

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wu Shaoning

aged 43, is the Chairman, Chief Executive Officer, founder of the Group and a member of the Remuneration Committee. He graduated from the University of Xiamen with a bachelor's degree in politics and economics. Thereafter, he attended the Hong Kong Macau Economics Study Programme at the University of Hong Kong for one year and obtained a master's degree in economics from the University of Xiamen. Mr. Wu has over 16 years of experience in trading business and the agricultural chemicals industry in Mainland China. Mr. Wu has been nominated as the director of 中國農作物化控專業委員會 (the Professional Crop Chemical Control Committee of China) in 1999. He was also elected as the deputy chairman of 福建省農業產業化龍頭企業協會 (the Fujian Agricultural Industrialisation Association) in 2004. Mr. Wu is responsible for the overall management and operation of the Group, as well as its strategic planning and business development.

Mr. Yang Zhuoya

aged 43, is the Managing Director and co-founder of the Group. He holds a doctorate degree in agricultural chemistry and plant nutrition. He has been nominated as the standing director of 福建省土壤肥料學會 (Soil and Fertilizer Academy of Fujian Province) for year 2000. Mr. Yang joined the Group in 1998 and is primarily responsible for the Group's product research and development, as well as overseeing its production operations. Mr. Yang has not held any directorships in any listed companies in the last three years. He has entered into a service agreement with the Company for a term of three years commencing on 15 November 1999 and shall continued thereafter unless and until terminated by either party giving to the other not less than three months' notice in writing. Mr. Yang shall be entitled to a remuneration of HK\$360,000 per annum during his term of appointment which is determined by the Board by reference to his duties and responsibilities with the Company and the market rate, and will be reviewed by the Board from time to time. Further details of remuneration of Mr. Yang are set out in note 8 to the financial statements. Mr. Yang has no interest in the shares of the Company within the meaning of Part XV of the Securities and Future Ordinance (the "SFO"). Mr. Yang is director of some of the subsidiaries of the Company. He does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company. Save as disclosed above, there is no other matter that should be brought to the attention of the shareholders of the Company nor any information to be disclosed pursuant to any of the requirements of Rule 13.51(2)(h) to 13.51(2)(v) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Michael Wu Chun Wah

aged 43, was appointed as a Non-executive Director of the Company with effect from 2 June 2008. He graduated from Northeast Louisiana University and holds a master degree in business administration. Mr. Wu also obtained a diploma of China trade and investment from Beijing University, a diploma of China laws from Guangdong Economic Laws Research Centre and a postgraduate diploma in management from Asia International Open University. He is fellow member of the Hong Kong Institute of Directors. He is currently an executive director of Incutech Investments Limited, a company listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Prior to his present employment, he was an executive director of China Chengtong Development Group Limited (listed on the Stock Exchange) which is a subsidiary of China Chengtong Holdings Limited, a pillar enterprise under the supervision of State-owned Assets Supervision and Administration Commission. He has also worked for several international financial institutions including BNP Paribas Peregrine Capital Limited, CCIC Finance Limited and American Express Bank Limited. Mr. Wu has extensive experience in financial investment and corporate finance. Save as disclosed herein, Mr. Wu did not hold any other directorship in listed public companies in the last three years. Mr. Wu has entered into a letter of appointment with the Company for a term of one year but subject to retirement and re-election at the next following annual general meeting of the Company. Mr. Wu shall be entitled to a remuneration of HK\$30,000 per month during his term of appointment which is determined by the Board by reference to his duties and responsibilities with the Company and the market rate, and will be reviewed by the Board from time to time. Further details of remuneration of Mr. Wu are set out in note 8 to the financial statements. Mr. Wu has no interest in the shares of the Company within the meaning of Part XV of the SFO. He has not previously held any position with the Company or its subsidiaries. He does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company. Save as disclosed above, there is no other matter that should be brought to the attention of the shareholders of the Company nor any information to be disclosed pursuant to any of the requirements of Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Ming Yung

aged 44, is an Independent Non-executive Director and the Chairman of the Audit Committee. He graduated from the School of Law of Shanghai Eastern Chinese College of Politics and Jurisprudence in 1986 and was awarded the degree of bachelor of law. Mr. Lam started practising law in 1987 in Fujian Province in Mainland China, and moved to Hong Kong in mid-1993. He was registered as a foreign lawyer with the Hong Kong Law Society in 1995, and is now practicing as a senior legal consultant of PRC Corporate Securities in the Hong Kong office of Sidley Austin Brown & Wood.

Biographical Details of Directors and Senior Management

Mr. Zhang Shaosheng

aged 57, is an Independent Non-executive Director and a member of the Audit Committee and Remuneration Committee. He is a professor of the College of Plant Protection of Fujian Agriculture and Forestry University. Mr. Zhang graduated from Fujian Agricultural College with a bachelor's degree in agriculture specialized in plant protection in 1975 and has 33 years of experience in the teaching of plant protection. He has not held any directorship in any listed companies in the last three years. Mr. Zhang entered into a letter of appointment with the Company for continuously appointed for another one-year term expiring on 9 August 2009 unless and until terminated by either party giving to the other not less than three months' notice in writing. He shall be entitled to a remuneration of HK\$60,000 per annum during his term of appointment which is determined by the Board by reference to his duties and responsibilities with the Company and the market rate, and will be reviewed by the Board from time to time. Further details of remuneration of Mr. Zhang are set out in note 8 to the financial statements. Mr. Zhang has no interest in the shares of the Company within the meaning of Part XV of the SFO. He has not previously held any position with the Company or its subsidiaries. He does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company. Save as disclosed above, there is no other matter that should be brought to the attention of the shareholders of the Company nor any information to be disclosed pursuant to any of the requirements of Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

Mr. Wong Chi Wai

aged 37, is an Independent Non-executive Director, a member of the Audit Committee and the Chairman of the Remuneration Committee. He graduated from the Hong Kong Polytechnic University with a bachelor degree in accountancy in 1994. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. He has over 14 years of experience in auditing, accounting and financial management. Mr. Wong currently holds a senior position in a bank in Hong Kong.

SENIOR MANAGEMENT

Mr. Tong Hing Wah, Raymond

aged 37, is the chief financial officer and company secretary of the Group. He graduated from the Hong Kong Polytechnic University with a bachelor degree in accountancy. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. He has over 15 years of experience in auditing, accounting and financial management. Mr. Tong joined the Group in 1999 and is primarily responsible for the Company's corporate finance, financial reporting and regulatory compliance.

Ms. Yeh Jing Ping

aged 57, is the finance supervisor of the Group. She graduated from Fuzhou University with a bachelor degree in commerce and is also a senior qualified accountant in Mainland China. She has over 24 years' experience in finance and accounting. Ms. Yeh joined the Group in June 1998 and is responsible for all finance and accounting matters of the Group's Mainland China subsidiaries.

Biographical Details of Directors and Senior Management

Mr. Zhao Bo Jian

aged 39, is the business development manager of the Group. He graduated from Central China Normal University with a degree in arts. Mr. Zhao has over 16 years of experience in brand name management and business development. He joined the Group in 2002 and is responsible for brand name management and business development of the Group's agricultural resources trading business.

Ms. Chen Xiao Fang

aged 44, is the international trading manager of the Group. She graduated from Suzhou University (蘇州大學) with a bachelor degree in silk textile engineering design (絲織工程設計). Thereafter, she studied business administration at The University of International Business and Economics (中國對外經貿大學) and obtained a master degree. Ms. Chen is also a qualified engineer and management consultant in Mainland China, and has over 24 years of experience in information management, human resources management, marketing strategies and international trading. She joined the Group in March 2004.

Mr. Wu Rong Song

aged 35, is the manager of the Group's capital management centre. He graduated from the School of Business and Economics of Fujian Agricultural University (福建農業大學經貿學院) with a bachelor degree in monetary banking. Mr. Wu is also a qualified economist in Mainland China and has over 15 years of experience in financial management. He joined the Group in March 2003.

Mr. Huang Zhong Geng

aged 41, is the production manager of the Group. He graduated from Fuzhou University (福州大學) with a bachelor degree in chemical engineering (precise chemical engineering). Thereafter, he studied at Heriot-Watt University of the United Kingdom as a part-time student for two years where he obtained a master degree in business administration. He is a senior qualified engineer in Mainland China and has over 20 years of experience in chemical engineering design and technical development. He joined the Group in August 2004.

Report of the Directors

The Directors have pleasure in presenting the annual report and the audited accounts of China Agrotech Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 30 June 2008.

PRINCIPAL ACTIVITIES

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

An analysis of the principal activities of the operations of the Group for the year ended 30 June 2008 is set out in Note 13 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2008 are set out in the consolidated income statement on page 30 of this annual report. No geographical analysis of the Group’s turnover and segment results is presented as the Group’s turnover and segment results are all derived from business conducted in Mainland China.

DIVIDEND

The Directors have resolved not to recommend the payment of any final dividend for the year ended 30 June 2008 (2007: HK2.6 cents) and recommend that the retained profits of approximately HK\$365,410,000 as at 30 June 2008 be carried forward.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 29 to the financial statements.

Report of the Directors

RESERVES AND RETAINED PROFITS

Details of the movements in the reserves of the Group and of the Company during the year are set out in the statement of change in equity and Note 29 to the financial statements respectively.

As at 30 June 2008, the Company's reserve available for distribution to shareholders amounted to approximately HK\$90,750,000 which is computed in accordance with the Companies Law (Amended) of the Cayman Islands and the Company's Articles of Association. This includes the Company's share premium of approximately HK\$114,391,000 and contributed surplus of approximately HK\$11,527,000, less accumulated losses of approximately HK\$35,168,000, which is available for distribution provided that immediately following the date on which the distribution is proposed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 14 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 30 June 2008 are set out in Note 18 to the financial statements.

PENSION SCHEMES

Details of the Group's pension schemes for the year ended 30 June 2008 are set out in Note 32 to the financial statements.

CONNECTED TRANSACTIONS

During the year ended 30 June 2008, there was no transaction which needed to be disclosed as connected transaction in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

FIVE YEARS FINANCIAL SUMMARY

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

Report of the Directors

DIRECTORS

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

Executive Directors:

Mr. Wu Shaoning (*Chairman and Chief Executive Officer*)

Mr. Yang Zhuoya (*Managing Director*)

Non-executive Director:

Mr. Michael Wu Chun Wah (appointed on 2 June 2008)

Independent Non-executive Directors:

Mr. Lam Ming Yung

Mr. Zhang Shaosheng

Mr. Wong Chi Wai

In accordance with Articles 86 and 87 of the Company's Articles of Association, Mr. Yang Zhuoya, Mr. Zhang Shaosheng and Mr. Michael Wu Chun Wah will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE AGREEMENTS

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

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

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

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

Mr. Michael Wu Chun Wah was appointed as Non-executive Director of the Company on 2 June 2008 and entered into a letter of appointment with the Company for a term of one year but subject to retirement and re-election at the next following annual general meeting of the Company.

Mr. Zhang Shaosheng and Mr. Wong Chi Wai, both being the Independent Non-executive Directors of the Company, each entered into a letter of appointment with the Company for continuously appointed for another one-year term expiring on 9 August 2009 and 26 September 2009 respectively unless and until terminated by either party giving to the other not less than three months' notice in writing.

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

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management of the Group are set out on pages 10 to 13.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2008, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Listing Rules were as follows:

Long positions in shares and underlying shares of the Company

Name of Director	Nature of interests	Number of ordinary shares			Total	Approximate percentage of issued share capital
		Personal interests	Family interests	Corporate interests		
Mr. Wu Shaoning	Interests in issued shares	186,200,000	–	–	186,200,000	38.02%
	Interests in underlying shares	58,800,000 ^(Note)	–	–	58,800,000	12.00%

Note: This represents the interests in underlying shares in respect of unlisted warrants transferred from Mr. Wong Ting Kwong during the year ended 30 June 2008. Further details of which are set out in the section headed "Issue of Unlisted Warrants".

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2008, so far as is known to the Directors, no parties (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

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

SHARE OPTION SCHEME

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

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

Report of the Directors

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

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

Name or category of participants	Number of shares in respect of options					Date of grant	Exercisable period	Exercise price per share
	Balance	Granted	Exercised	Lapsed/ cancelled	Outstanding			
	as at 1 July 2007				as at 30 June 2008			
		during the year	during the year	during the year (Note 1)				HK\$
Employees:								
In aggregate	800,000	–	–	–	800,000	01/12/2003	01/01/2004 – 30/12/2011	0.55

Notes:

- No option has been lapsed or cancelled during the year ended 30 June 2008.
- Since no option has been exercised during the year ended 30 June 2008, the weighted average closing price immediately before the exercise date is not applicable.

MAJOR SUPPLIERS AND CUSTOMERS

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

Report of the Directors

COMPETING INTERESTS

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

ISSUE OF UNLISTED WARRANTS

On 7 September 2007, the Company issued to Mr. Wong Ting Kwong ("Mr. Wong") and Mr. Cheng Maiyue 58,800,000 and 25,200,000 warrants respectively at the issue price of HK\$0.03 per warrant pursuant to a subscription agreement dated 19 August 2007.

The warrantholders have the right to exercise the subscription rights attaching to the warrants, in whole or in part, at the subscription price of HK\$1.00 per subscription share at any time within 2 years commencing from the date of issue of the warrants. The warrants are not listed on the Stock Exchange or any other stock exchanges. The net proceeds of approximately HK\$2,446,000 from the issue of the warrants was used as general working capital.

On 2 May 2008, Mr. Wong as transferor, transferred 58,800,000 warrants to Mr. Wu Shaoning, an Executive Director and a controlling shareholder of the Company, as transferee, at the transfer price of HK\$7,644,000 (at HK\$0.13 for each warrant), representing a premium of approximately 333.33% of the issue price of HK\$0.03 for each warrant.

No warrant was exercised during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not redeem any of its listed securities during the year ended 30 June 2008. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard set out in the Model Code regarding securities transactions by directors during the year ended 30 June 2008.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Report of the Directors

PUBLIC FLOAT

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDITORS

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

On behalf of the Board

Wu Shaoning

Chairman

Hong Kong, 27 October 2008

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

The Board considers that the Company has complied throughout the year ended 30 June 2008 with the applicable provisions of the Code on Corporate Government Practices ("CG Code") as set out in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except that (i) there is no division of roles of chairman and chief executive officer that both offices are held by Mr. Wu Shaoning; and (ii) one of the Independent Non-executive Directors is not appointed for specific terms.

THE BOARD COMPOSITION AND BOARD PRACTICES

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

As at 30 June 2008, the Board comprises six Directors, of whom two are Executive Directors, namely Mr. Wu Shaoning (Chairman and Chief Executive Officer) and Mr. Yang Zhuoya, one is Non-executive Director, namely Mr. Michael Wu Chun Wah (appointed on 2 June 2008) and three are Independent Non-executive Directors, namely Mr. Lam Ming Yung, Mr. Zhang Shaosheng and Mr. Wong Chi Wai.

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

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

Corporate Governance Report

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

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

During the year ended 30 June 2008, 4 regular Board meetings have been held. The attendance of each Director, on named basis and by category, at Board meetings and Board committee meetings during the year is set out below:

Directors	Number of meeting attended/ Number of meeting held		
	Board	Remuneration Committee	Audit Committee
Executive Directors			
Mr. Wu Shaoning (Chairman and the Chief Executive Officer)	6/6	2/2	–
Mr. Yang Zhuoya	6/6	–	–
Non-executive Director			
Mr. Michael Wu Chun Wah (appointed on 2 June 2008)	–	–	–
Independent Non-executive Directors			
Mr. Lam Ming Yung	4/6	–	2/2
Mr. Zhang Shaosheng	5/6	2/2	2/2
Mr. Wong Chi Wai	5/6	2/2	2/2

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

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

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

Corporate Governance Report

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Since the full Board is involved in the appointment of new Directors, the Company has not established a Nomination Committee. The Board will take into consideration criteria such as expertise, experience, integrity and commitment when considering new director appointments.

In accordance with the Articles, all Directors are subject to retirement by rotation and re-election at annual general meetings of the Company. New Directors appointed by the Board during the year are required to retire and submit themselves for re-election at the first annual general meeting immediately following their appointments. Further, at each annual general meeting, one-third (if not a multiple of three, then the number nearest to but not less than one-third) of Director shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires.

RESPONSIBILITIES OF DIRECTORS

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

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

The Non-executive Director, Mr. Michael Wu Chun Wah (appointed on 2 June 2008) and the Independent Non-executive Directors, Mr. Zhang Shaosheng and Mr. Wong Chi Wai, were appointed for a specific term of one year, except for Mr. Lam Ming Yung who was not appointed for any specific term, but subject to retirement by rotation once every three years at annual general meetings of the Company in accordance with the Articles.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, the Company confirmed that all the Directors have complied with the required standard of dealings set out in the Model Code throughout the year ended 30 June 2008.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

COMMITTEES OF THE BOARD

Nomination Committee

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

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

During the year and prior to the date of this report, there have no changes of the Directors except Mr. Michael Wu Chun Wah has been appointed as Non-executive Director of the Company with effect from 2 June 2008.

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

Remuneration Committee

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

Corporate Governance Report

The duties of the Remuneration Committee includes making recommendations to the Board on the remuneration policy and structure of the Directors and senior management, approving the remuneration, determining the remuneration packages of all Directors and senior management and approving the compensation to Directors and senior management on termination or dismissal. The remuneration packages including basic salary, annual discretionary bonus, pension scheme, share option scheme and other benefit-in-kind such as private medical cover are commensurate with their performance, job nature and experience level. No Director was involved in deciding his own remuneration.

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence. The emoluments of the Directors are determined with reference to the Company's operating results, individual performance and the prevailing market rates. The Company has adopted a share option scheme on 31 December 2001 (the "Scheme") as an incentive to Directors and eligible employees, details of which are set out in the report of the directors and note 27 to the financial statements of this annual report.

The Remuneration Committee meets at least once a year. During the year, the Remuneration Committee has held a meeting on 2 June 2008.

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

Audit Committee

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

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

The scope of such examinations and reviews include finance, operations, regulatory compliance and risk management. Each member of the Audit Committee has unrestricted access to the external auditors and all senior management of the Group in order to discharge its responsibilities. Save as disclosed above, the Audit Committee has reviewed the audited financial statements of the Company for the year ended 30 June 2008.

During the year ended 30 June 2008, the Audit Committee met twice together with the Chief Financial Officer of the Company as well as with the external auditors of the Group. Please refer to the table set out in the section "The Board Composition and Board Practices" of this corporate governance report for the attendance records of individual Audit Committee members.

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

Corporate Governance Report

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of accounts for each financial period which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 30 June 2008, the Directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

AUDITORS AND THEIR REMUNERATION

CCIF has been appointed as the Auditors for the year ended 30 June 2008 by shareholders at the annual general meeting held on 7 December 2007 and they will hold office until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statements for the year ended 30 June 2008 have been audited by CCIF.

An amount of HK\$1,500,000 (2007: HK\$1,000,000) was charged to the financial statements of the Company and subsidiaries for the year ended 30 June 2008 for CCIF's statutory audit. No other non-audit service was provided by CCIF for the Company during the two years ended 30 June 2008.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss.

Procedures have been set up for safeguarding assets against unauthorised use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

During the year ended 30 June 2008, the Audit Committee assessed the internal control environment of the Group and reviewed the internal control procedural manual of the Group and concluded that the internal control systems are effective and efficient.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

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

Independent Auditor's Report



CCIF

CCIF CPA LIMITED

20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA AGROTECH HOLDINGS LIMITED

(Incorporated in The Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Agrotech Holdings Limited (the "company") set out on pages 30 to 100, which comprise the consolidated and the company balance sheets as at 30 June 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 30 June 2008 and of the group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited

Certified Public Accountants

Hong Kong, 27 October 2008

Betty P.C. Tse

Practising Certificate Number P03024

Consolidated Income Statement

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

	Note	2008 HK\$'000	2007 HK\$'000
Turnover	4	2,894,984	2,552,044
Cost of sales		(2,608,179)	(2,317,068)
Gross profit		286,805	234,976
(Decrease)/increase in fair value of investment properties	15	(9,594)	5,064
Other income	5	41,999	24,682
Distribution costs		(98,335)	(74,231)
Administrative expenses		(75,014)	(73,261)
Profit from operations		145,861	117,230
Finance costs	6(a)	(43,803)	(31,513)
Profit before taxation	6	102,058	85,717
Income tax	7(a)	(15,788)	(8,839)
Profit for the year		86,270	76,878
Attributable to:			
– Equity shareholders of the Company	10, 29(a)	82,423	80,592
– Minority interests	29(a)	3,847	(3,714)
Profit for the year	29(a)	86,270	76,878
Dividends payable to equity shareholders of the Company attributable to the year:	11		
– Final dividend proposed after the balance sheet date		–	12,734
Earnings per share	12		
– Basic		HK16.83 cents	HK17.66 cents
– Diluted		HK16.51 cents	HK17.14 cents

The notes on pages 38 to 100 form part of these financial statements.

Consolidated Balance Sheet

At 30 June 2008
(Expressed in Hong Kong dollars)

		2008		2007	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Property, plant and equipment	14		53,439		39,884
Investment properties	15		25,726		32,496
Lease premiums for land	16		10,263		9,376
Intangible assets	17		146,301		146,424
			235,729		228,180
Current assets					
Trading securities	20	1,091		—	
Inventories	21	321,869		188,875	
Lease premiums for land	16	317		287	
Trade and other receivables	22	1,388,487		1,313,343	
Restricted bank deposits	23	211,416		206,407	
Cash and bank balances	24	192,433		171,227	
		2,115,613		1,880,139	
Current liabilities					
Trade and other payables	25	1,235,700		1,241,496	
Bank loans	26	388,091		287,219	
Current taxation	28	30,954		17,213	
		1,654,745		1,545,928	
Net current assets			460,868		334,211
NET ASSETS			696,597		562,391

Consolidated Balance Sheet

At 30 June 2008
(Expressed in Hong Kong dollars)

	Note	2008 HK\$'000	2007 HK\$'000
CAPITAL AND RESERVES	29(a)		
Share capital		48,977	48,977
Reserves		629,973	506,990
Total equity attributable to equity shareholders of the Company		678,950	555,967
Minority interests		17,647	6,424
TOTAL EQUITY		696,597	562,391

Approved and authorised for issue by the board of directors on 27 October 2008.

Wu Shaoning
Director

Yang Zhuoya
Director

Balance Sheet

At 30 June 2008
(Expressed in Hong Kong dollars)

	Note	2008 HK\$'000	2007 HK\$'000
Non-current assets			
Investments in subsidiaries	18	143,790	158,328
Current assets			
Trade and other receivables	22	74	72
Current liabilities			
Trade and other payables	25	1,691	1,184
Net current liabilities		(1,617)	(1,112)
NET ASSETS		142,173	157,216
CAPITAL AND RESERVES	29(b)		
Share capital		48,977	48,977
Reserves		93,196	108,239
TOTAL EQUITY		142,173	157,216

Approved and authorised for issue by the board of directors on 27 October 2008.

Wu Shaoning
Director

Yang Zhuoya
Director

The notes on pages 38 to 100 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company										Minority interests	Total equity
	Share capital	Share premium	Capital reserve	Share option reserve	Property revaluation reserve	Exchange reserve	Other reserves	Warrant reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2006	42,157	98,550	1,188	2,769	7,833	9,306	45,106	-	210,853	417,762	6,313	424,075
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong	-	-	-	-	-	24,987	-	-	-	24,987	-	24,987
Transfer to other reserves	-	-	-	-	-	-	4,477	-	(4,477)	-	-	-
Equity settled share-based transactions	-	-	-	2,386	-	-	-	-	-	2,386	-	2,386
Shares issued under share option scheme	6,820	28,575	-	(5,155)	-	-	-	-	-	30,240	-	30,240
Capital injected by minority shareholders	-	-	-	-	-	-	-	-	-	-	4,123	4,123
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	(298)	(298)
Profit for the year	-	-	-	-	-	-	-	-	80,592	80,592	(3,714)	76,878
At 30 June 2007	48,977	127,125	1,188	-	7,833	34,293	49,583	-	286,968	555,967	6,424	562,391

Consolidated Statement of Changes in Equity

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company											Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Share option reserve HK\$'000	Property revaluation reserve HK\$'000	Exchange reserve HK\$'000	Other reserves HK\$'000	Warrant reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	
At 1 July 2007	48,977	127,125	1,188	-	7,833	34,293	49,583	-	286,968	555,967	6,424	562,391
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong	-	-	-	-	-	58,208	-	-	-	58,208	1,487	59,695
Dividends declared in respect of prior year	-	(12,734)	-	-	-	-	-	-	-	(12,734)	-	(12,734)
Transfers	-	-	-	-	-	(6,271)	3,981	-	(3,981)	(6,271)	6,271	-
Issuance of warrants	-	-	-	-	-	-	-	2,446	-	2,446	-	2,446
Partial disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	2,902	2,902
Increase in shareholding in a subsidiary	-	-	-	-	-	-	-	-	-	-	(73)	(73)
Capital injected by minority shareholders	-	-	-	-	-	-	-	-	-	-	57	57
Disposal of subsidiaries	-	-	-	-	-	(1,089)	-	-	-	(1,089)	(3,268)	(4,357)
Profit for the year	-	-	-	-	-	-	-	-	82,423	82,423	3,847	86,270
At 30 June 2008	48,977	114,391	1,188	-	7,833	85,141	53,564	2,446	365,410	678,950	17,647	696,597

The notes on pages 38 to 100 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

	Note	2008 HK\$'000	2007 HK\$'000
Operating activities			
Profit before taxation		102,058	85,717
Adjustments for:			
Depreciation		9,017	8,920
Exchange loss		(622)	–
Loss on sale of property, plant and equipment		433	249
Loss on sale of lease premiums for land		–	29
Write off of advances to suppliers		5,045	–
Loss on written off of intangible assets		130	–
Amortisation of lease premiums for land		221	203
Amortisation of intangible assets		22,240	29,122
Impairment for trade receivables		1,222	6,026
Interest income		(22,330)	(20,710)
Finance costs		43,803	31,513
Gain on disposals of subsidiaries		(8,512)	–
Gain on partial disposal of a subsidiary		(508)	–
Loss on disposals of jointly-controlled entities		165	–
Equity-settled share-based payment expenses		–	2,386
(Decrease)/increase in fair value of investment properties		9,594	(5,064)
Realized gains on trading securities		–	(40)
Operating profit before changes in working capital		161,956	138,351
Increase in inventories		(116,763)	(5,462)
Decrease/(increase) in trade and other receivables		26,792	(597,783)
(Decrease)/increase in trade and other payables		(119,451)	413,115
Cash used in operations		(47,466)	(51,779)
Tax paid		(2,068)	(1,647)
Net cash used in operating activities		(49,534)	(53,426)
Investing activities			
Interest received		22,330	20,710
Payment for purchase of businesses	31(b)	(6,475)	–
Payment for the purchase of property, plant and equipment		(18,781)	(6,275)
Proceeds from sale of property, plant and equipment		345	611
Proceeds from partial disposal of a subsidiary		3,410	–
Proceeds from sale of trading securities		–	710
Purchase of trading securities		(1,091)	–
Decrease in restricted bank deposits		16,178	16,425
Payment for lease premiums for land		–	(952)
Proceeds from sale of lease premiums for land		–	5,041
Payment for product development costs		–	(16,289)
Payment for technical know-how		(1,511)	(247)
Net cash inflow from disposals of jointly-controlled entities	30(b)	813	–
Net cash inflow/(outflow) from disposals of subsidiaries	30(a)(c)	786	(57)
Net cash generated from investing activities		16,004	19,677

Consolidated Cash Flow Statement

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

	Note	2008 HK\$'000	2007 HK\$'000
Financing activities			
Proceeds from issue of shares	29(c)	–	30,240
Capital contribution from minority shareholders		57	4,123
Issue of warrants	29(d)(vi)	2,446	–
(Repayment to)/advances from minority shareholders		9,006	(23,447)
Dividends paid to equity shareholders of the Company		(12,732)	–
Advance from a director	35(f)	21,770	–
Repayment to a director	35(f)	(10,060)	(292)
Proceeds from new bank loans		388,091	286,188
Repayment of bank loans		(316,702)	(212,965)
Finance costs paid		(43,803)	(31,513)
Net cash generated from financing activities		38,073	52,334
Net increase in cash and cash equivalents		4,543	18,585
Cash and cash equivalents at beginning of the year		171,227	145,802
Effect of foreign exchange rate changes		16,663	6,840
Cash and cash equivalents at end of the year	24	192,433	171,227

The notes on pages 38 to 100 form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

1. GENERAL INFORMATION

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

The consolidated financial statements of the Company as at and for the year ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in jointly controlled entities. The Company acts as an investment holding. The subsidiaries are principally engaged in the following businesses:

- (a) the trade of pesticides, fertilizers and other agricultural products;
- (b) the manufacture and sale of plant growth regulatory products, pesticides and fertilizers;
- (c) the provision of plant protection technical services; and
- (d) the trade of non-agricultural resources products.

These consolidated financial statements are presented in Hong Kong dollars, rounded to the nearest thousand, which is the same as the functional currency of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 30 June 2008 comprise the Group and the Group's interest in jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis except where stated otherwise the accounting policies in set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 37.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. 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 represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet 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

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and minority interests *(Continued)*

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.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses.

(d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity. The consolidated financial statements include the Group's proportionate share of the enterprise's assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in income statement.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the jointly controlled entities.

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

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

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in debt and equity securities

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

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in income statement as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in income statement.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in income statement. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in equity is recognised in income statement.

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

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(k)(i)) 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 income statement. Rental income from investment properties is accounted for as described in note 2(u)(vi).

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

(h) Other property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses:

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

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Construction-in-progress

Construction-in-progress is stated at cost less impairment losses. Cost comprises direct costs of construction incurred, including any attributable financing costs, during the periods of construction and installation. The asset concerned is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed, at which time it commences to be depreciated in accordance with the Group's depreciation policy.

(j) Intangible assets (other than goodwill)

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

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

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

Amortisation of intangible assets with finite useful lives is charged to income statement on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– system development costs	5 years
– product development costs	5 to 10 years
– technical know-how	5 to 10 years

Both the period and method of amortisation are reviewed annually.

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

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leased assets

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

(i) Classification of assets leased to the Group

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

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

(ii) Assets acquired under finance leases

At the commencement of the lease term, the Group recognises finance lease as assets and liabilities in the balance sheet at amounts equal to the fair value of the leased property, or if lower, the present value of the minimum lease payments each determined at the inception of the lease. Any initial direct costs are added to the amount recognised as an asset. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(l). Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leased assets (Continued)

(iii) Operating lease charges

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

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

(l) Impairment of assets

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

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Impairment of assets (Continued)

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

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

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discontinuing is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in income statement. The amount of the cumulative loss that is recognised in income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in income statement.

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

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in income statement.

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(ii) Impairment of other 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, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease premiums for land;
- intangible assets;
- investments in subsidiaries and joint ventures (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)); and
- goodwill.

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

- 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).
- Recognition of impairment losses
An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.
- Reversals of impairment losses
In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to income statement in the year in which the reversals are recognised.

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Impairment of assets (Continued)

(iii) Interim financial reporting and impairment

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

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

(m) Inventories

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

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

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

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

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, 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.

(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 the amount initially recognised and redemption value being recognised in income statement over the period of the borrowings, together with any interest and fees payables, using the effective interest method.

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(t)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) 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.

(r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share option reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting periods, taking into account the probability that the options will vest.

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

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income tax (Continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(t)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(ii) Other provisions and contingent liabilities

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in income statement as follows:

(i) Sale of goods

Revenue is recognised when the goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Provision of services

Revenue from provision of plant protection technical services is recognised on a systematic basis over the terms of the service period.

(iii) Dividends

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

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

(iv) Interest income

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

(v) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in income statement over the useful life of the asset.

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Revenue recognition *(Continued)*

(vi) Rental income from operating leases

Rental income receivable under operating leases is recognised in income statement 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 income statement 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.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary asset and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement.

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

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

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

(w) Borrowing costs

Borrowing costs are expensed in income statement 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.

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Related parties

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

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

(y) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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, tax balances, corporate and financing expenses.

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures*, and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 33.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 29(f).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 38).

4. TURNOVER

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

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

	2008 HK\$'000	2007 HK\$'000
Trading of fertilizers, pesticides and other agricultural products	1,769,988	1,876,988
Manufacture and sale of plant growth regulatory products, pesticides and fertilizers	267,639	159,580
Provision of plant protection technical services	30,069	36,579
Trading of non-agricultural resources products	827,288	478,897
	2,894,984	2,552,044

Notes to the Financial Statements

For the year ended 30 June 2008
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5. OTHER INCOME

	2008 HK\$'000	2007 HK\$'000
Interest income from bank deposits	6,068	5,206
Other interest income	16,262	15,504
Government grants	3,886	2,632
Sundry income	104	1,300
Gain on partial disposal of a subsidiary	508	–
Gain on disposals of subsidiaries	8,512	–
Agency fee income	6,659	–
Realized gains on trading securities	–	40
	41,999	24,682

6. PROFIT BEFORE TAXATION

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

(a) Finance costs

	2008 HK\$'000	2007 HK\$'000
Interest on bank advances and other borrowings wholly repayable within five years	43,803	31,513

(b) Staff costs (including directors' remuneration)

	2008 HK\$'000	2007 HK\$'000
Contributions to defined contribution retirement plans	1,424	834
Equity-settled share-based payment expenses	–	2,386
Salaries, wages and other benefits	26,630	19,593
	28,054	22,813

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

6. PROFIT BEFORE TAXATION (Continued)

(c) Other items

	Note	2008 HK\$'000	2007 HK\$'000
Amortisation #			
– lease premiums for land		221	203
– intangible assets		22,240	29,122
Auditors' remuneration		1,500	1,000
Depreciation #		9,017	8,920
Net foreign exchange loss		3,219	569
Impairment losses of trade receivables	22(a)(ii)	1,222	6,026
Write off of advances to suppliers		5,045	–
Loss on disposals of jointly-controlled entities	30(b)	165	–
Gain on disposals of subsidiaries	30(a) & (c)	(8,512)	(678)
Gain on partial disposal of a subsidiary		(508)	–
Loss on written off of intangible assets		130	–
Operating leases charges: minimum			
– lease payments for land and buildings		3,113	3,140
Loss on sale of property, plant and equipment		433	249
Loss on sale of lease premiums for land		–	29
Cost of inventories #	21(b)	2,608,179	2,317,068

Cost of inventories includes HK\$13,327,000 (2007: HK\$12,840,000) relating to staff costs, depreciation, amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2008 HK\$'000	2007 HK\$'000
Current tax – The PRC		
Provision for the PRC corporate income tax for the year	15,788	8,702
Under-provision in respect of prior years	–	137
	15,788	8,839

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

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

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

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

No Hong Kong profits tax has been provided for in the financial statements as the Group has accumulated tax losses brought forward which exceed the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the relevant jurisdictions.

PRC income tax represents tax charges on the estimated assessable profits of the Company's subsidiaries established in the PRC. Domestic enterprises of the PRC are subject to income tax rates from 18% to 33%. Productive foreign investment enterprises established in the special economic zones of Fujian, the PRC, are subject to preferential income tax rates ranging from 15% to 30%.

From 1998, the Group established certain productive foreign investment enterprises which were/are entitled to full exemption from the PRC 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 the PRC. No provision for the PRC income tax was made in respect of the operations of certain productive foreign investment enterprises during the year ended 30 June 2008 (2007: nil) since these enterprises were either at tax loss position or were enjoying the full tax exemption treatment during the year.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax law of the PRC (the "new CIT law"). The new CIT law unifies the corporate income tax for domestic and foreign enterprises at 25% with effect from 1 January 2008. Entities which are entitled to special incentive may continue to be given concessions, if applicable.

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

	2008 HK\$'000	2007 HK\$'000
Profit before taxation	102,058	85,717
Notional tax on profit before taxation	29,597	28,287
Tax effect of non-deductible expenses	2,537	2,999
Tax effect of additional tax deductions	(3,312)	(4,117)
Tax effect of non-taxable income	(14,059)	(27,327)
Tax effect of unused tax losses not recognised	3,873	8,903
Tax effect of utilisation of tax loss not previously recognised	(2,119)	(821)
Under-provision in prior years	–	137
Effect of different tax rates used in other jurisdictions	(729)	778
Actual tax expense	15,788	8,839

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

8. DIRECTORS' REMUNERATION

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

Year ended 30 June 2008

	Director's fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	Sub-total HK\$'000	Share-based payments (note (i)) HK\$'000	Total HK\$'000
Executive directors						
Mr. Wu Shaoning	-	905	12	917	-	917
Mr. Yang Zhuoya	-	360	12	372	-	372
Independent non-executive directors						
Mr. Lam Ming Yung	60	-	-	60	-	60
Mr. Zhang Shaosheng	60	-	-	60	-	60
Mr. Wong Chi Wai	120	-	-	120	-	120
Non-executive directors						
Mr. Michael Wu Chun Wah	30	-	-	30	-	30
	270	1,265	24	1,559	-	1,559

Year ended 30 June 2007

	Director's fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	Sub-total HK\$'000	Share-based payments (note (i)) HK\$'000	Total HK\$'000
Executive directors						
Mr. Wu Shaoning	-	738	12	750	37	787
Mr. Yang Zhuoya	-	348	12	360	37	397
Independent non-executive directors						
Mr. Lam Ming Yung	60	-	-	60	-	60
Mr. Zhang Shaosheng	60	-	-	60	-	60
Mr. Wong Chi Wai	120	-	-	120	-	120
	240	1,086	24	1,350	74	1,424

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8. DIRECTORS' REMUNERATION (Continued)

- (i) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(r)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits-in-kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 27.

- (ii) No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Company or as compensation for loss of office for the years ended 30 June 2008 and 2007. None of the directors waived or agreed to waive any remuneration for the both years.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2007: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2007: three) individuals are as follows:

	2008 HK\$'000	2007 HK\$'000
Salaries and other emoluments	761	658
Share-based payments	—	336
Retirement scheme contributions	31	31
	792	1,025

The emoluments of the three (2007: three) individuals with the highest emoluments are within the following bands:

	2008 Number of individuals	2007 Number of individuals
Nil – HK\$1,000,000	3	3

No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office for both years.

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10. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of HK\$4,755,000 (2007: HK\$4,594,000) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS PAYABLE TO EQUITY SHAREHOLDERS OF THE COMPANY ATTRIBUTABLE TO THE YEAR

	2008 HK\$'000	2007 HK\$'000
Final dividend proposed after the balance sheet date of HK2.6 cents per ordinary share	—	12,734

The final dividend proposed after the balance sheet date had not been recognised as a liability at the balance sheet date.

12. EARNINGS PER SHARE

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

	2008 HK\$'000	2007 HK\$'000
Earnings used in calculating basic and diluted earnings per share (profit attributable to equity shareholders of the Company)	82,423	80,592

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12. EARNINGS PER SHARE (Continued)

	Number of shares	
	2008 '000	2007 '000
Weighted average number of ordinary shares used in calculating basic earnings per share	489,767	456,296
Effect of dilutive potential shares		
– share options	419	13,864
– warrants	9,159	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	499,345	470,160

13. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business segment. Business segment information is chosen as the primary reporting format because this is most relevant to the Group's internal financial reporting.

(a) Business segments

The Group comprises the following main business segments:

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

Manufacturing operation: the manufacture and sale of plant growth regulatory products, pesticides and fertilizers.

Consultancy operation: the provision of plant protection technical services.

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

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13. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

(i) For the year ended 30 June 2008

	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 HK\$'000
Revenue from external customers	1,769,988	267,639	30,069	827,288	-	2,894,984
Inter-segment revenue	13,551	35,437	3,152	30,066	(82,206)	-
Total	1,783,539	303,076	33,221	857,354	(82,206)	2,894,984
Segment results	58,657	39,208	23,505	20,188		141,558
Interest income						22,330
Unallocated corporate operating income						-
Unallocated corporate operating expenses						(18,027)
Profit from operations						145,861
Finance costs						(43,803)
Profit before taxation						102,058
Income tax						(15,788)
Profit for the year						86,270
Depreciation and amortisation for the year	1,906	27,129	2,252	191		31,478
Impairment of trade receivables	1,222	-	-	-		1,222
Write off of advances to suppliers	5,045	-	-	-		5,045
Segment assets	1,727,938	187,860	23,902	368,222		2,307,922
Unallocated assets						43,420
Total assets						2,351,342
Segment liabilities	1,325,668	41,501	249	273,232		1,640,650
Unallocated liabilities						14,095
Total liabilities						1,654,745
Capital expenditure incurred during the year	2,872	16,897	37	486		20,292

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For the year ended 30 June 2008
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13. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

(ii) For the year ended 30 June 2007

	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 HK\$'000
Revenue from external customers	1,876,988	159,580	36,579	478,897		2,552,044
Inter-segment revenue	31,985	87,727	3,871	1,535	(125,118)	–
Total	1,908,973	247,307	40,450	480,432	(125,118)	2,552,044
Segment results	15,932	41,719	27,055	14,414		99,120
Interest income						20,710
Unallocated corporate operating income						5,064
Unallocated corporate operating expenses						(7,664)
Profit from operations						117,230
Finance costs						(31,513)
Profit before taxation						85,717
Income tax						(8,839)
Profit for the year						76,878
Depreciation and amortisation for the year	11,259	24,737	2,159	90		38,245
Impairment of trade receivables	6,026	–	–	–		6,026
Segment assets	1,711,758	178,408	24,208	176,138		2,090,512
Unallocated assets						17,807
Total assets						2,108,319
Segment liabilities	1,398,522	32,583	87	111,373		1,542,565
Unallocated liabilities						3,363
Total liabilities						1,545,928
Capital expenditure incurred during the year	1,744	21,249	36	734		23,763

(b) Geographical segments

No analysis of the Group's turnover and contribution from operations by geographical segment has been presented as almost all the Group's operating activities are carried out in the PRC. There is no other geographical segment with segment assets equal to or greater than 10 per cent of the Group's total assets.

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14. PROPERTY, PLANT AND EQUIPMENT

	The Group					
	Buildings HK\$'000	Machinery HK\$'000	Construction- in-progress HK\$'000	Furniture and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:						
At 1 July 2006	21,996	70,171	–	3,705	5,103	100,975
Exchange adjustments	1,359	4,336	–	229	315	6,239
Additions	–	1,770	1,390	1,215	1,900	6,275
Disposals	–	(514)	–	(54)	(813)	(1,381)
At 30 June 2007 and 1 July 2007	23,355	75,763	1,390	5,095	6,505	112,108
Exchange adjustments	2,491	7,824	809	540	742	12,406
Additions	1,746	894	12,467	1,228	2,446	18,781
Disposals	–	–	–	(389)	(1,061)	(1,450)
Disposal of a subsidiary	–	–	–	(11)	–	(11)
At 30 June 2008	27,592	84,481	14,666	6,463	8,632	141,834
Accumulated depreciation:						
At 1 July 2006	4,209	52,224	–	1,505	2,172	60,110
Exchange adjustments	260	3,228	–	93	134	3,715
Charge for the year	1,215	5,989	–	922	794	8,920
Write back on disposals	–	(318)	–	(39)	(164)	(521)
At 30 June 2007 and 1 July 2007	5,684	61,123	–	2,481	2,936	72,224
Exchange adjustments	656	6,570	–	275	331	7,832
Charge for the year	1,355	5,524	–	1,047	1,091	9,017
Write back on disposals	–	–	–	(150)	(522)	(672)
Disposal of a subsidiary	–	–	–	(6)	–	(6)
At 30 June 2008	7,695	73,217	–	3,647	3,836	88,395
Net carrying amount:						
At 30 June 2008	19,897	11,264	14,666	2,816	4,796	53,439
At 30 June 2007	17,671	14,640	1,390	2,614	3,569	39,884

- (a) The buildings are held under medium-term leases and situated in the PRC.
- (b) Construction in progress represents buildings, intended by the Group for holding for own use, under construction.
- (c) At 30 June 2008, the buildings with net carrying amount of HK\$4,947,000 were pledged for bank loans granted to a subsidiary.

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15. INVESTMENT PROPERTIES

	The Group	
	2008	2007
	HK\$'000	HK\$'000
Valuation		
At beginning of the year	32,496	25,834
Exchange adjustment	2,824	1,598
(Decrease)/increase in fair value	(9,594)	5,064
At end of the year	25,726	32,496

- (a) The investment properties are held under medium-term leases and situated in the PRC.
- (b) The investment properties were revalued as at 30 June 2008 on an open market basis. The valuations were carried out by 湖南經典房地產評估諮詢有限公司, an independent valuer firm with recent experience in the location and category of property being valued.
- (c) The investment properties had not been leased out during the years ended 30 June 2008 and 2007.
- (d) Direct operating expenses incurred in relation to the investment properties that did not generate rental income for the year ended 30 June 2008 were HK\$56,000 (2007: HK\$61,000).

16. LEASE PREMIUMS FOR LAND

	The Group	
	2008	2007
	HK\$'000	HK\$'000
Net carrying amount at beginning of the year	9,663	13,170
Exchange adjustment	1,138	814
Additions	—	952
Disposals	—	(5,070)
Amortisation	(221)	(203)
Net carrying amount at end of the year	10,580	9,663
Current portion of lease premiums for land	(317)	(287)
Non-current portion	10,263	9,376

- (a) The leasehold land is held under medium-term leases and situated in the PRC.
- (b) At 30 June 2008, the lease premiums for land with net carrying amount of HK\$4,484,000 were pledged for bank loans granted to a subsidiary.

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17. INTANGIBLE ASSETS

	The Group				
	Goodwill	System development costs	Product development costs	Technical know-how	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:					
At 1 July 2006	98,659	44,661	28,492	88,931	260,743
Exchange adjustments	7,297	2,763	1,762	5,501	17,323
Additions	–	–	16,289	247	16,536
At 30 June 2007 and 1 July 2007	105,956	47,424	46,543	94,679	294,602
Exchange adjustments	11,564	4,868	4,778	9,786	30,996
Additions	6,475	–	–	1,511	7,986
Write off	–	–	–	(259)	(259)
At 30 June 2008	123,995	52,292	51,321	105,717	333,325
Accumulated amortisation and impairment losses:					
At 1 July 2006	19,006	32,752	12,726	46,512	110,996
Exchange adjustments	2,370	2,026	787	2,877	8,060
Charge for the year	–	9,484	2,422	17,216	29,122
At 30 June 2007 and 1 July 2007	21,376	44,262	15,935	66,605	148,178
Exchange adjustments	2,536	4,721	1,884	7,594	16,735
Charge for the year	–	3,309	4,644	14,287	22,240
Write off	–	–	–	(129)	(129)
At 30 June 2008	23,912	52,292	22,463	88,357	187,024
Net carrying amount:					
At 30 June 2008	100,083	–	28,858	17,360	146,301
At 30 June 2007	84,580	3,162	30,608	28,074	146,424

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17. INTANGIBLE ASSETS (Continued)

(a) Impairment test for goodwill

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

	Note	2008 HK\$'000	2007 HK\$'000
Agricultural resources trading operation	(i)	100,083	84,580
Non-agricultural resources trading operation	(ii)	—	—
		100,083	84,580

(i) Agricultural resources trading operation

The Group performed its annual impairment test for goodwill allocated to the cash generating units by comparing their recoverable amount to their carrying amount as at the balance sheet date. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projection based on a five-year financial budget approved by management and extrapolated perpetually with an estimated annual growth rate of not more than 5%. The discount rate of 13.2% reflected the specific risk related to the relevant segment. The budgeted gross profit margin of 6% is determined by the management based on past performance and its expectations for market development. The management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of the goodwill to exceed the recoverable amount.

(ii) Non-agricultural resources trading operation

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

- (b) System development costs represent costs of developing the Group's computer system software. Product development costs represent the internally developed technology on manufacturing pesticides and fertilizers. Technical know-how represents the formulae acquired for manufacturing pesticides and fertilizers. They all have finite useful lines.
- (c) Amortisation charges for the year of HK\$7,643,000 (2007: HK\$2,349,000) and HK\$14,597,000 (2007: HK\$26,773,000) are included in cost of sales and administrative expenses respectively in the consolidated income statement.
- (d) The valuations for the product development costs and technical know-how as at 30 June 2008 were carried out by 福建興閩誠信資產評估有限責任公司, an independent qualified professional valuation firm not connected with the Group. Based on the valuation, the directors assessed the recoverable amount of the intangible assets and concluded that the intangible assets were not impaired.

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18. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2008	2007
	HK\$'000	HK\$'000
Unlisted shares, at cost	11,735	11,727
Amounts due from subsidiaries	132,055	146,601
	143,790	158,328

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

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

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital/ capital contribution	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Yut Yat Company Limited	British Virgin Islands/ Hong Kong	US\$60,000	–	100%	–	Investment holding
Fujian Agrotech Holdings Co., Ltd.*	PRC	RMB50,000,000	100%	–	100%	Investment holding and provision of agricultural technical support services
Fuzhou Agrotech Crop Science Co., Ltd.*	PRC	HK\$40,000,000	100%	–	100%	Provision of agricultural technical support services
Fujian Agrotech Bio-Engineering Co., Ltd.*	PRC	US\$1,000,000	100%	–	100%	Manufacturing and selling of plant growth regulatory products and fertilizers
Loyal Faith International Industrial Limited	Hong Kong	HK\$1,000,000	100%	–	100%	Investment holding
Topmart Limited	Hong Kong	HK\$2	100%	–	100%	Investment holding
福建南平市浩倫作物科學有限公司#	PRC	RMB10,000,000	90%	–	90%	Trading of pesticides, fertilizers other agricultural products and provision of agricultural technical support services

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18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital/ capital contribution	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
山西浩倫農業科技有限公司 #	PRC	RMB3,000,000	93.6%	–	93.6%	Trading of pesticides, fertilizers and other agricultural products
江西浩倫農業科技有限公司 #	PRC	RMB5,000,000	93.6%	–	93.6%	Trading of pesticides, fertilizers and other agricultural products
湖南浩倫農業科技有限公司 #	PRC	RMB50,000,000	100%	–	100%	Trading of pesticides, fertilizers and other agricultural products
江蘇浩倫農業科技有限公司 #	PRC	RMB3,000,000	100%	–	100%	Trading of pesticides, fertilizers and other agricultural products
海南浩倫農業科技有限公司 #	PRC	RMB2,000,000	100%	–	100%	Trading of pesticides, fertilizers and other agricultural products
大豐市浩倫農資超市 有限責任公司 #	PRC	RMB5,000,000	70%	–	70%	Trading of pesticides, fertilizers and other agricultural products
建湖縣浩倫農資超市 有限責任公司 #	PRC	RMB1,000,000	70%	–	70%	Trading of pesticides, fertilizers and other agricultural products
吉安市浩倫農業科技有限公司 #	PRC	RMB1,000,000	70%	–	70%	Trading of pesticides, fertilizers 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%	–	70%	Trading of pesticides, fertilizers and other agricultural products

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18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital/ capital contribution	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
太原市浩倫科力農業科技有限公司 [#]	PRC	RMB1,000,000	65.5%	–	65.5%	Trading of pesticides, fertilizers and other agricultural products
常德浩倫農業科技有限公司 [#]	PRC	RMB500,000	70%	–	70%	Trading of pesticides, fertilizers and other agricultural products
華容浩倫金穗農業科技有限公司 [#]	PRC	RMB500,000	85%	–	85%	Trading of pesticides, fertilizers and other agricultural products
荊門市浩倫農科磷化有限公司 [#]	PRC	RMB3,000,000	98.5%	–	98.5%	Manufacturing and selling of fertilizers
福州浩倫東方貿易有限公司 [#]	PRC	RMB10,000,000	100%	–	100%	General trading and export
福州澤林貿易有限公司 [#]	PRC	RMB1,000,000	94.6%	–	94.6%	Trading of coal
山東浩倫農業科技有限公司 [#]	PRC	RMB25,000,000	98%	–	98%	Trading of pesticides, fertilizers and other agricultural products
山東浩倫興魯農資連鎖有限公司 [#]	PRC	RMB15,000,000	58.8%	–	58.8%	Trading of pesticides, fertilizers and other agricultural products
濟南浩倫安耐特化工有限公司 [#]	PRC	RMB1,800,000	68.6%	–	68.6%	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%	–	100%	Trading of pesticides, fertilizers and other agricultural products
福州浩倫技術諮詢有限公司 [#]	PRC	RMB500,000	100%	–	100%	Provision of agricultural technical support services and consultancy services

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18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital/ capital contribution	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
福建浩倫投資(控股)有限公司*	PRC	RMB30,000,000	99.8%	–	99.8%	Inactive
緞芬河浩倫經貿有限公司#	PRC	RMB1,000,000	98%	–	98%	Inactive
秦皇島市東山沅電力燃料有限公司#	PRC	RMB5,000,000	60%	–	60%	Trading of coal
合肥保豐農資有限公司#△	PRC	RMB500,000	95%	–	95%	Trading of pesticides, fertilizers and other agricultural products
平江縣新潤農業科技有限公司#△	PRC	RMB500,000	95%	–	95%	Trading of pesticides, fertilizers and other agricultural products

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

Registered under the laws of the PRC as domestic enterprise

△ Incorporated during the year

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19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

Details of the Group's interest in the jointly-controlled entity are as follows:

Name of joint venture	Forms of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by subsidiaries	
湖南湘農農資貿易有限公司 [#]	Incorporated	PRC	Registered capital RMB57,500,000	52%	–	52%	Trading of pesticides fertilizers and other agricultural products

[#] Registered under the laws of the PRC as domestic enterprise

Included in the consolidated financial statements are the following items that represent the Group's interest in the assets and liabilities, revenues and expenses of the jointly controlled entity:

	2008 HK\$'000	2007 HK\$'000
Non-current assets	41,592	34,753
Current assets	57,586	51,459
Current liabilities	(52,487)	(39,565)
Net assets	46,691	46,647
Income	67,835	145,824
Expenses	(70,377)	(145,604)
(Loss)/profit for the year	(2,542)	220

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20. TRADING SECURITIES

	The Group	
	2008	2007
	HK\$'000	HK\$'000
Trading securities (at fair value)		
Unlisted securities, outside Hong Kong	1,091	–

21. INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2008	2007
	HK\$'000	HK\$'000
Raw materials	11,959	17,924
Work-in-progress	1,136	1,254
Finished goods	16,611	16,423
Merchandise	292,163	153,274
	321,869	188,875

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

	The Group	
	2008	2007
	HK\$'000	HK\$'000
Carrying amount of inventories sold	2,608,179	2,317,068

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22. TRADE AND OTHER RECEIVABLES

	Note	The Group		The Company	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Trade debtors and bills receivable	(a)	413,189	346,511	–	–
Less: Allowance for doubtful debts		(7,449)	(9,363)	–	–
		405,740	337,148	–	–
Due from minority shareholders	(b)	3,554	–	–	–
Due from a joint venture partner	(c)	–	14,136	–	–
Other receivable	(d)	105,041	–	–	–
Deposits for acquiring phosphorous mines	(e)	27,782	–	–	–
Loans and receivables		542,117	351,284	–	–
Deposits and prepayments		92,105	34,561	74	72
Advances to suppliers		754,265	927,498	–	–
		1,388,487	1,313,343	74	72

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

(a) Trade debtors and bills receivable

(i) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group	
	2008 HK\$'000	2007 HK\$'000
Within credit period	368,439	317,283
Amounts past due		
– Within 6 months	23,171	19,865
– More than 6 months but within 18 months	14,130	–
	405,740	337,148

Debts are generally due within three to six months from the date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and creditworthiness of the customers, extend the credit period upon customers' requests. Further details on the Group's credit policy are set out in note 33(a).

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

22. TRADE AND OTHER RECEIVABLES (Continued)

(a) Trade debts and bills receivable (Continued)

(ii) Impairment of trade debtors and bills receivable

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

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

	The Group	
	2008 HK\$'000	2007 HK\$'000
At beginning of the year	9,363	3,337
Impairment loss recognised	1,222	6,026
Disposal of subsidiaries	(3,137)	–
At end of the year	7,448	9,363

At 30 June 2008, the Group's trade debtors and bills receivable of HK\$7,448,000 (2007: HK\$9,363,000) were individually determined to be impaired. The individually impaired receivables related to customers that have been long overdue and the receivables are not expected to be recovered. Consequently, full allowances for doubtful debts of HK\$7,448,000 (2007: HK\$9,363,000) were recognised. The Group does not hold any collateral over these balances.

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

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

	The Group	
	2008 HK\$'000	2007 HK\$'000
Neither past due nor impaired	368,439	317,283
Past due within 6 months	23,171	19,865
Past due more than 6 months but within 18 months	14,130	–
Past due but not impaired	37,301	19,865
	405,740	337,148

Notes to the Financial Statements

For the year ended 30 June 2008
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22. TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

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

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

(b) Due from minority shareholders

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

(c) Due from a joint venture partner

The amount due from a joint venture partner was unsecured, interest-free and had no fixed terms of repayment.

(d) Other receivable

A sales and purchase agreement dated 21 December 2007 was entered into with a supplier for the appointment of one of the Group's subsidiaries as distributor of certain pesticides. The amount represents payments made to the supplier for working capital purposes. The amount bears interest at the Renminbi benchmark lending rate quoted by The People's Bank of China plus a 20% premium and is repayable on demand. The amount is secured by certain assets of the supplier. Subsequent to the balance sheet date, approximately HK\$104,461,000 plus interests were returned to the Group as the supplier failed to supply the goods to the Group.

(e) Deposits for acquiring phosphorous mines

The amounts represent two refundable deposits paid by the Group, under two letters of intent for the intended acquisitions of the entire existing shares of two target companies. These two companies are in the process of acquiring 80% and 85% interests respectively in two mine holding companies which in turn own phosphorous mines in various locations in Habei Province in the PRC. The two mine holding companies currently do not have exploitation license. Pursuant to the letters of intent ("Letters of Intent") dated 27 November 2007 and 29 November 2007, the Group paid RMB12,000,000 (equivalent to HK\$13,641,000) and RMB12,000,000 (equivalent to HK\$13,641,000) respectively as refundable deposits to the vendors. The completion of the acquisitions of these two target companies are primarily subject to the procurement of the mine exploitation licenses by the mine holding companies and the acquisition considerations will be based on the verified reserve of the phosphorous mines. The deposit should be refunded to the Group within 10 days after the expirations of the exclusive periods which is 18 months and 240 days after signing the respective letters of intent if the acquisitions are not completed. On 15 July 2008, the Group entered into a supplemental agreement with the vendors to extend one of the letters of intent which exclusive period expired on 25 July 2008 for a period of 180 days to 21 January 2009. The mining companies and few other persons guarantee the performance of obligations of the respective vendors in regard to the refundable deposits.

23. RESTRICTED BANK DEPOSITS

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

Notes to the Financial Statements

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(Expressed in Hong Kong dollars)

23. RESTRICTED BANK DEPOSITS (Continued)

The restricted bank deposits earn interest at the respective short-term time deposit rates. All the bank deposits are denominated in Renminbi. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange controls imposed by the PRC government.

24. CASH AND BANK BALANCES

Cash and bank balances of HK\$170,628,000 (2007: HK\$162,328,000) are denominated in Renminbi. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange controls imposed by the PRC government. Cash at bank earns interest at floating rates based on daily bank deposit rates.

25. TRADE AND OTHER PAYABLES

	Note	The Group		The Company	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Trade creditors and bills payable	(a)	1,024,742	821,781	—	—
Accrued charges		29,754	29,227	1,689	1,124
Dividend payable		2	—	2	—
Receipts in advance		116,803	360,802	—	—
Due to minority shareholders	(b)	11,537	2,531	—	—
Due to a jointly controlled entity	(c)	17,943	4,988	—	—
Due to a director	35(f)	11,770	60	—	60
Due to a partner of a jointly controlled entity	(d)	5,383	—	—	—
Other payables		17,766	22,107	—	—
Financial liabilities carried at amortised cost		1,235,700	1,241,496	1,691	1,184

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

(a) Trade creditors and bills payable

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	The Group	
	2008 HK\$'000	2007 HK\$'000
Due within 1 month or on demand	289,640	332,043
Due after 1 month but within 2 months	187,464	115,324
Due after 2 months but within 3 months	169,344	132,328
Due after 3 months but within 6 months	349,786	220,997
Due after 6 months	28,508	21,089
	1,024,742	821,781

As at 30 June 2008, the bills payable of approximately HK\$771 million (2007: HK\$601 million) were secured by the restricted bank deposits (note 23) and guarantees given by a director of the Company.

Notes to the Financial Statements

For the year ended 30 June 2008
(Expressed in Hong Kong dollars)

25. TRADE AND OTHER PAYABLES (Continued)

(b) Due to minority shareholders

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

(c) Due to a jointly controlled entity

The amount due to a jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.

(d) Due to a partner of a jointly controlled entity

The amount due to a partner of a jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.

26. BANK LOANS

At 30 June 2008, details of the bank loans carried at amortised cost and repayable within 1 year were as follows:

	Note	The Company	
		2008 HK\$'000	2007 HK\$'000
Secured	(a)	11,368	46,722
Unsecured	(b)	376,723	240,497
		388,091	287,219

- (a) At 30 June 2008, the above secured bank loans of the Group amounted to HK\$11,368,000 (2007: HK\$46,722,000) were secured by the following:-

	2008 HK\$'000	2007 HK\$'000
Lease premiums for land	4,484	—
Buildings	4,947	—
Machinery	—	1,031
Investment properties	—	32,496
Restricted bank deposits	—	26,350
Inventories	—	10,309
	9,431	70,186

- (b) The unsecured bank loans were guaranteed by a director of the Company and a third party and properties put up by certain minority shareholders.
- (c) At 30 June 2008, the effective interest rates of the bank loans ranged from 5.78% to 10% (2007: 5.22% to 9.86%) per annum.

Notes to the Financial Statements

For the year ended 30 June 2008
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27. EQUITY SETTLED SHARE-BASED TRANSACTIONS

Employee share-based compensation benefits represent the fair value of employee services estimated to be received in exchange for the grant of the relevant options over the relevant vesting periods, the total of which is based on the fair value of the options granted. The amount for each period is determined by spreading the fair value of the options over the relevant vesting periods and is recognised as staff costs and related expenses (note 6(b)) with a corresponding increase in the share option reserve.

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

- (a) The terms and conditions of the grants that existed during the years are as follows and all options are settled by physical delivery of shares:

Date of grant	Vesting conditions	Exercise period	Exercise price	Number of options granted
1 December 2003	Immediately	1 January 2004 to 30 December 2011	HK\$0.550	800,000

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

	2008		2007	
	Weighted average exercise price HK\$	Number of share options '000	Weighted average exercise price HK\$	Number of share options '000
Outstanding at beginning of the year	0.550	800	0.445	69,000
Exercised during the year	N/A	—	0.443	(68,200)
Outstanding at end of the year	0.550	800	0.550	800
Exercisable at end of the year	0.550	800	0.550	800

The weighted average share price at the date of exercise for share options exercised during the year ended 30 June 2007 was HK\$1.13.

The options outstanding at 30 June 2008 had an exercise price of HK\$0.55 (2007: HK\$0.55) and a weighted average remaining contractual life of 3.5 years (2007: 4.5 years).

Notes to the Financial Statements

For the year ended 30 June 2008
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27. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) Fair value of share options and assumptions

As the options granted on 1 December 2003, no amounts were recognised when employees (which term includes the directors of the Company) were granted share options over shares in the Company in accordance with the accounting policy set out in note 2(r)(ii) for the Group has taken advantage of the transitional provisions set out in HKFRS 2 under which the recognition and measurement policies have not been applied to (i) all options granted to employees on or before 7 November 2002, and (ii) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005. 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.

28. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation

Provision for taxation of approximately HK\$30,954,000 (2007: HK\$17,213,000) in the consolidated balance sheet represents provision for PRC income tax.

(b) Deferred taxation not recognised

At 30 June 2008, the Group has not recognised deferred tax assets in respect of tax losses of approximately HK\$15,252,000 (2007: HK\$10,607,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses of HK\$11,556,000 (2007: HK\$6,802,000) do not have expiry date under current tax legislation and tax losses of HK\$3,696,000 (2007: HK\$3,806,000) will expire in five years from the year in which they were incurred.

The Group had no other significant deferred taxation not provided for during the year and at the balance sheet date.

Notes to the Financial Statements

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29. CAPITAL AND RESERVES

(a) The Group

	Attributable to equity shareholders of the Company											Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Share option reserve HK\$'000	Property revaluation reserve HK\$'000	Exchange reserve HK\$'000	Other reserves HK\$'000	Warrant reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	
At 1 July 2006	42,157	98,550	1,188	2,769	7,833	9,306	45,106	-	210,853	417,762	6,313	424,075
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong	-	-	-	-	-	24,987	-	-	-	24,987	-	24,987
Transfer to other reserves	-	-	-	-	-	-	4,477	-	(4,477)	-	-	-
Equity settled share-based transactions	-	-	-	2,386	-	-	-	-	-	2,386	-	2,386
Shares issued under share option scheme	6,820	28,575	-	(5,155)	-	-	-	-	-	30,240	-	30,240
Capital injected by minority shareholders	-	-	-	-	-	-	-	-	-	-	4,123	4,123
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	(298)	(298)
Profit for the year	-	-	-	-	-	-	-	-	80,592	80,592	(3,714)	76,878
At 30 June 2007	48,977	127,125	1,188	-	7,833	34,293	49,583	-	286,968	555,967	6,424	562,391

Notes to the Financial Statements

For the year ended 30 June 2008
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29. CAPITAL AND RESERVES (Continued)

(a) The Group (Continued)

	Attributable to equity shareholders of the Company											Total equity HK\$'000
	Share capital	Share premium	Capital reserve	Share option reserve	Property revaluation reserve	Exchange reserve	Other reserves	Warrant reserve	Retained profits	Total	Minority interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 July 2007	48,977	127,125	1,188	-	7,833	34,293	49,583	-	286,968	555,967	6,424	562,391
Exchange difference on translation of the financial statements of subsidiaries outside Hong Kong	-	-	-	-	-	58,208	-	-	-	58,208	1,487	59,695
Dividends declared in the respect of prior year	-	(12,734)	-	-	-	-	-	-	-	(12,734)	-	(12,734)
Transfers	-	-	-	-	-	(6,271)	3,981	-	(3,981)	(6,271)	6,271	-
Issuance of warrants	-	-	-	-	-	-	-	2,446	-	2,446	-	2,446
Partial disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	2,902	2,902
Increase in shareholding in a subsidiary	-	-	-	-	-	-	-	-	-	-	(73)	(73)
Capital injected by minority shareholders	-	-	-	-	-	-	-	-	-	-	57	57
Disposal of subsidiaries	-	-	-	-	-	(1,089)	-	-	-	(1,089)	(3,268)	(4,357)
Profit for the year	-	-	-	-	-	-	-	-	82,423	82,423	3,847	86,270
At 30 June 2008	48,977	114,391	1,188	-	7,833	85,141	53,564	2,446	365,410	678,950	17,647	696,597

Notes to the Financial Statements

For the year ended 30 June 2008
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29. CAPITAL AND RESERVES (Continued)

(b) The Company

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Warrant reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2006	42,157	98,550	11,527	2,769	–	(25,819)	129,184
Equity settled share-based transactions	–	–	–	2,386	–	–	2,386
Shares issued under share option scheme	6,820	28,575	–	(5,155)	–	–	30,240
Loss for the year	–	–	–	–	–	(4,594)	(4,594)
At 30 June 2007 and 1 July 2007	48,977	127,125	11,527	–	–	(30,413)	157,216
Issuance of warrants	–	–	–	–	2,446	–	2,446
Dividend declared in respect of prior year	–	(12,734)	–	–	–	–	(12,734)
Loss for the year	–	–	–	–	–	(4,755)	(4,755)
At 30 June 2008	48,977	114,391	11,527	–	2,446	(35,168)	142,173

(c) Share capital

	2008		2007	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	3,000,000	300,000	3,000,000	300,000
Ordinary shares, issued and fully paid:				
At 1 July	489,767	48,977	421,567	42,157
Exercise of share options	–	–	68,200	6,820
At 30 June	489,767	48,977	489,767	48,977

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

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For the year ended 30 June 2008
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29. CAPITAL AND RESERVES (Continued)

(c) Share capital (Continued)

Shares issued under share option scheme

During the year ended 30 June 2007, options were exercised to subscribe for 68,200,000 ordinary shares in the Company at a consideration of HK\$30,240,000 of which HK\$6,820,000 was credited to share capital and the balance of HK\$23,420,000 was credited to the share premium account. HK\$5,155,000 has been transferred from the share option reserve to the share premium account in accordance with the accounting policy set out in note 2(r)(ii).

(d) Nature and purpose of reserves

(i) Share premium and contributed surplus

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

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

(ii) Capital reserve

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

(iii) Share option reserve

Share option reserve represents the value of share options granted to the option holders the right to subscribe for ordinary shares of the Company (note 27).

(iv) Property revaluation reserve

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

(v) Exchange reserve

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

Notes to the Financial Statements

For the year ended 30 June 2008
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29. CAPITAL AND RESERVES (Continued)

(d) Nature and purpose of reserves (Continued)

(vi) Warrant reserve

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

On 7 September 2007, the Company issued 84,000,000 unlisted warrants at an issue price of HK\$0.03 per warrant pursuant to a subscription agreement dated 19 August 2007. The net proceeds from the issuance of warrants were HK\$2,446,000. Each warrant entitles the holder to subscribe for one ordinary share of HK\$0.10 each at an initial subscription price of HK\$1.0 per share during the period from 7 September 2007 to 6 September 2009. New shares issued rank pari passu in all respect with the existing shares.

Movements in warrants:

Date of issue	At 1/1/2007	Issued during the year	Exercised during the year	At 30/6/2008
7/9/2007	–	84,000,000	–	84,000,000

Terms of unexpired and unexercised warrants at the balance sheet date:

Date of issue	Exercisable period	Number of Warrants 2008	2007
7/9/2007	7/9/2007 – 6/9/2009	84,000,000	–

(vii) Other reserves

In accordance with relevant rules and regulations in the PRC, except for sino-foreign equity joint venture enterprises, all the PRC companies are required to transfer 10% of their profit after taxation calculated under PRC accounting rules and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset previous years' losses or to increase the capital of respective companies. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the PRC companies. The enterprise expansion fund can only be used to increase capital of respective companies or to expand their production operations upon approval by the relevant authority.

In accordance with relevant rules and regulations in the PRC applied on sino-foreign equity joint venture enterprises, the appropriations to the statutory reserve fund and enterprise expansion fund are determined by the board of directors of respective companies.

Notes to the Financial Statements

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29. CAPITAL AND RESERVES (Continued)

(e) Distributability of reserves

As at 30 June 2008, the aggregate amount of reserves available for distribution to equity shareholders of the Company amounted to HK\$90,750,000 (2007: HK\$108,239,000) computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's Articles of Association. This includes the Company's share premium and contributed surplus of HK\$114,391,000 (2007: HK\$127,125,000) and HK\$11,527,000 (2007: HK\$11,527,000) respectively, less accumulated losses of HK\$35,168,000 (2007: HK\$30,413,000), which is available for distribution provided that immediately following the date on which the dividend is proposed the Company will be able to pay off its debts as they fall due in the ordinary course of business.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal balance between debt and equity. The Group's overall strategy remains unchanged from prior years.

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

The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt. The Group's strategy is to maintain a gearing ratio of not exceeding 40%. The gearing ratios at 30 June 2008 and 2007 were as follows:

	2008 HK\$'000	2007 HK\$'000
Bank loans	388,091	287,219
Less: Cash and cash equivalents	(192,433)	(171,227)
Net debt	195,658	115,992
Total equity	696,597	562,391
Total capital	892,255	678,383
Gearing ratio	22%	17%

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

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30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposals of subsidiaries during the year ended 30 June 2008

In 2008, three subsidiaries of the Group were disposed, namely 漳州浩倫農業科技有限公司, 上海遠洋農業生產資料有限公司 and 嘉興浩倫東方能源有限公司, which were engaged in trading of pesticides, fertilizers and other agricultural products. The cash flow and net liabilities of subsidiaries disposed of were as follows:

	2008 HK\$'000
Property, plant and equipment	5
Inventories	1,452
Trade and other receivables	27,423
Cash and bank balances	805
Trade and other payable	(33,338)
Minority interests	(3,268)
Net assets disposed of subsidiaries	(6,921)
Gain on disposals	8,512
Consideration received	1,591
Less: Cash of subsidiaries disposed of	(805)
Net cash inflow in respect of the disposal of subsidiaries	786

The subsidiaries disposed of during the year had no significant impact on the Group's turnover or profit for the year ended 30 June 2008.

(b) Disposals of jointly-controlled entities during the year ended 30 June 2008

In 2008, five jointly-controlled entities of the Group were disposed, namely 郴州湘農業生產資料有限公司, 懷化湘農業生產資料有限公司, 衡陽湘農業生產資料有限公司, 岳陽湘農業生產資料有限公司 and 株州湘農業生產資料有限公司, which were engaged in trading of fertilizers, pesticides and other agricultural products. The cash flow and the net assets of the jointly controlled entities disposed of were as follows:

	2008 HK\$'000
Inventories	1,704
Trade and other receivables	2,571
Cash and bank balances	982
Trade and other payable	(3,297)
Net assets disposed of jointly-controlled entities	1,960
Loss on disposals	(165)
Consideration received	1,795
Less: Cash of jointly-controlled entities disposed of	(982)
Net cash inflow in respect of the disposals of jointly-controlled entities	813

The jointly-controlled entities disposed of during the year had no significant impact on the Group's turnover or profit for the year ended 30 June 2008.

Notes to the Financial Statements

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30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Disposals of subsidiaries during the year ended 30 June 2007

In 2007, two subsidiaries of the Group were deregistered, namely 山西安豐農業科技有限公司 and 平和縣超大浩倫錦溪生產資料有限公司, which were engaged in trading of pesticides, fertilizers and other agricultural products. The cash flow and the net liabilities of subsidiaries disposed of are provided below:

	2007 HK\$'000
Inventories	7
Trade and other receivables	8,181
Cash and bank balances	57
Other payables	(8,625)
Minority interests	(298)
Net liabilities disposed of subsidiaries	(678)
Gain on disposals	678
Consideration received	—
Less: Cash of subsidiaries disposed of	(57)
Net cash outflow in respect of the disposal of subsidiaries	(57)

The subsidiaries disposed of during the year had no significant impact on the Group's turnover or profit for the year ended 30 June 2007.

(d) Partial disposal of a subsidiary

Proceeds on partial disposal of a subsidiary represented sales proceeds of HK\$3,410,000 arising from the disposal of 19.6% effective interest in 山東浩倫興魯農資連鎖有限公司, an indirect owned subsidiary of the Group.

31. BUSINESS COMBINATION

During the year ended 30 June 2008, the Group completed two acquisitions:

On 9 July 2007, the Group acquired the trading operation of 平江縣農業技術推廣站農資服務部(「平江農業」). The acquired trading operation has talent and skillful workforces in agricultural business in Hunan, the PRC.

On 16 July 2007, the Group acquired the trading operation of 合肥樂豐化肥有限公司(「合肥樂豐」). The acquired trading operation has talent and skillful workforces in agricultural in Anhui, the PRC.

(a) Details of net assets acquired and goodwill are as follows:

	Trading operation of 平江農業 HK\$'000	Trading operation of 合肥樂豐 HK\$'000	Total HK\$'000
Purchase consideration	3,237	3,238	6,475
Less: Fair value of net assets acquired	—	—	—
Goodwill (Note 17)	3,237	3,238	6,475

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31. BUSINESS COMBINATION (Continued)

- (a) Details of net assets acquired and goodwill are as follows: (Continued)

The goodwill is attributable to the skills and talent of the acquired workforces, the profitability and the synergies expected to arise from the acquired businesses.

The acquired trading operations contributed revenue of HK\$57,792,000 and profit after tax of HK\$3,807,000 to the Group for the period from their respective dates of acquisitions to 30 June 2008. There was no material difference on the contribution of revenue and profit after tax if these acquisitions had occurred on 1 July 2007. These amounts have been calculated using the Group's accounting policies.

- (b) Analysis of the net outflow of cash and cash equivalents in respect of the acquisitions:

	平江農業 HK\$'000	合肥樂豐 HK\$'000	Total HK\$'000
Purchase consideration	3,237	3,238	6,475
Cash and cash equivalents acquired	—	—	—
Net outflow of cash and cash equivalents in respect of the acquisitions	3,237	3,238	6,475

32. RETIREMENT BENEFIT SCHEMES

- (a) The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme managed by an independent approved MPF Scheme trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.
- (b) Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement plan (the "Plan") organised by the local government authorities whereby the subsidiaries are required to contribute to the Plan to fund the retirement benefits of the eligible employees. Contributions made to the Plan are calculated at a certain percentage of the basic salaries of the eligible employees. The local government authorities are responsible for the entire pension obligations payable to the retired employees. The Group is not liable to any retirement benefits payment in the PRC beyond the contributions to the Plan.

The Group does not operate any other scheme for retirement benefits provided to the Group's employees.

Notes to the Financial Statements

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33. FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group did not have significant concentration risk except for the other receivable due from a supplier as disclosed in note 22(d).

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

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

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

As at 30 June 2008, the Group has no significant concentration of credit risk on deposits with banks.

(b) Liquidity risk

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

Notes to the Financial Statements

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33. FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

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

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

The Group

	Carrying amount HK\$'000	2008 Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	Carrying amount HK\$'000	2007 Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000
Trade and other payables	1,235,700	1,235,700	1,235,700	1,241,496	1,241,496	1,241,496
Bank loans and overdrafts	388,091	402,072	402,072	287,219	295,121	295,121
	1,623,791	1,637,772	1,637,772	1,528,715	1,536,617	1,536,617

The Company

	Carrying amount HK\$'000	2008 Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	Carrying amount HK\$'000	2007 Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000
Trade and other payables	1,691	1,691	1,691	1,184	1,184	1,184

(c) Interest rate risk

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

Notes to the Financial Statements

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33. FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk (Continued)

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the balance sheet date.

	The Group			
	2008		2007	
	Effective interest rate %	HK\$'000	Effective interest rate %	HK\$'000
Fixed rate borrowings:				
Bank loans	7.02 – 8.21	64,857	5.32 – 7.34	62,031
Variable rate borrowings:				
Bank loans	5.78 – 10.00	323,234	5.02 – 9.86	225,189
		388,091		287,220
Fixed rate borrowings as a percentage of total borrowings		16.7%		21.6%

(ii) Sensitivity analysis

At 30 June 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by HK\$323,000 (2007: HK\$225,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

(d) Currency risk

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

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

Notes to the Financial Statements

For the year ended 30 June 2008
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33. FINANCIAL INSTRUMENTS (Continued)

(d) Currency risk (Continued)

(i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in foreign currencies.

The Group

	The Group			
	2008		2007	
	USD'000	RMB'000	USD'000	RMB'000
Trade and other receivables	5,396	1,219,466	3,980	1,273,798
Cash and cash equivalents	2,724	382,044	2	358,869
Bank loans	(10,099)	(1,056,266)	(549)	(1,195,054)
Trade and other payables	(2,979)	(341,404)	(821)	(278,602)
Overall net exposure	(4,958)	203,840	2,612	159,011

(ii) Sensitivity analysis

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

The Group

	2008			2007		
	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits HK\$'000	Effect on other components of equity HK\$'000	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits HK\$'000	Effect on other components of equity HK\$'000
USD	1 (1)	– –	26 (26)	1 (1)	– –	143 (143)
RMB	5 (5)	– –	8,689 (8,689)	5 (5)	– –	5,398 (5,398)

Notes to the Financial Statements

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33. FINANCIAL INSTRUMENTS (Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis (Continued)

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for 2007.

(e) Operation risk

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

(f) Fair value

All financial assets and liabilities are stated at fair value or carried at amounts not materially different from their fair values as at balance sheet date.

(g) Equity price risk

The Group is exposed to price changes arising from the trading securities. The fair value of the trading securities is determined by reference to published price quotations in active markets. Given the insignificant portfolio of trading securities, the management believes that the Group's equity price risk is minimal.

34. COMMITMENTS

(a) At 30 June 2008, capital commitments not provided for in the financial statement were as follows:

	The Group	
	2008 HK\$'000	2007 HK\$'000
Contracted but not provided for construction-in-progress	9,645	—

(b) At 30 June 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2008 HK\$'000	2007 HK\$'000
Within 1 year	1,805	1,442
After 1 year but within 5 years	2,905	1,691
After 5 years	316	1,414
	5,026	4,547

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

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35. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out elsewhere in these financial statements, the Group had the following material related party transactions during the year.

(a) Guarantees given by a director of the Company

Mr. Wu Shaoning, a director of the Company, gave personal guarantees to the extent of HK\$625,213,000 (2007: HK\$48,453,000) in favour of banks for banking facilities granted to the Group.

(b) Guarantees given by minority shareholders of the subsidiaries

大豐市新農農業生產資料有限公司, 濰坊市興魯農業生產資料有限公司 and 吉安市鑫田化肥農藥有限公司, the minority shareholders of the Group's subsidiaries, pledged their properties to banks for banking facilities of approximately HK\$19,501,000 (2007: HK\$13,403,000) granted to the Group.

(c) Disposals of jointly-controlled entities to a partner of a jointly controlled entity

During the year ended 30 June 2008, the Group disposed of five jointly-controlled entities, namely 郴州湘農業生產資料有限公司, 懷化湘農業生產資料有限公司, 衡陽湘農業生產資料有限公司, 岳陽湘農業生產資料有限公司 and 株州湘農業生產資料有限公司, which were engaged in trading of pesticides, fertilizers and other agricultural products to 湖南湘農農資連鎖有限公司, a partner of a jointly-controlled entity, at a consideration of HK\$1,795,000. The Group recorded a loss of HK\$165,000 on the disposals.

(d) Disposal of 20% interest in a subsidiary to a minority shareholder

During the year ended 30 June 2008, the Group disposed of 19.6% effective equity interest in 山東浩倫興魯農資連鎖有限公司, a subsidiary of the Group to 濰坊市興魯農業生產資料有限公司, a minority shareholder of the subsidiary at a consideration of HK\$3,410,000. The Group recorded a gain of HK\$508,000 on the partial disposal of the subsidiary.

(e) key management personnel remuneration

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

	The Group	
	2008	2007
	HK\$'000	HK\$'000
Short-term employee benefits	2,026	1,744
Post-employment benefits	55	55
Equity compensation benefits	—	409
	2,081	2,208

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

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35. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(f) Financing arrangements

	Amount due to a director	
	2008 HK\$'000	2007 HK\$'000
At beginning of the year	60	332
Advance to the director	21,770	60
Repayment to the director	(10,060)	(332)
At end of the year	11,770	60

The amount is due to Mr. Wu Shaoning, a director of the Company and included in the trade and other payables (note 25). The amount due to a director is unsecured, interest-free and repayable on demand.

36. COMPARATIVE FIGURES

Certain comparative figures have been restated and reclassified to conform with the current year's presentation.

As a result of adopting HKFRS 7, Financial Instruments: Disclosures, and the amendments to HKAS 1, Presentation of financial statements: Capital disclosures, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2008. Further details of these developments are disclosed in note 3.

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37. ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

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

(i) Valuation of investment properties

Investment properties are included in the balance sheet at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration all readily information and current market environment.

The assumptions adopted in the property valuations are based on the market conditions existing at the balance sheet date, with reference to current market sales prices and the appropriate capitalisation rate.

(ii) Depreciation and amortisation

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

(iii) Assessment of impairment of non-current assets

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

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

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37. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Key sources of estimation uncertainty (Continued)

(iv) Capitalisation of product development costs

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

(v) Write down of inventories

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

(vi) Impairment for bad and doubtful debts

The Group provides impairment loss for bad and doubtful debts based upon evaluation of the recoverability of the trade and other receivables at each balance sheet date. The impairment are based on the ageing of the trade and other receivables balances, the creditworthiness of debtors and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment may be required.

(vii) Tax provision

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

(viii) Recognition of deferred tax assets

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

(ix) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(l). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 17(a)).

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

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

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38. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 30 JUNE 2008

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ended 30 June 2008 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 12	Service Concession Arrangements ²
HK(IFRIC)-Int 13	Customer Loyalty Programmes ³
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 January 2008

³ Effective for annual periods beginning on or after 1 July 2008