HUBEI SANONDA CO., LTD.

ANNUAL REPORT 2006
(B-share)

Contents

Section I. Important Notes

The Board of Directors, the Supervisory Committee, directors, supervisors and senior executives of Hubei Sanonda Co., Ltd. (hereinafter referred to as the Company) warrant that this report does not contain any false or misleading statements or omit any material facts and all information set forth herein are true, accurate and complete.

This report is prepared in both Chinese and English. Should there be any discrepancy in interpretation between the two versions, the Chinese version shall prevail.

ShineWing (HK) CPA Limited audited the financial report of the Company and produced the standard unqualified Auditors' Report for the Company.

Mr. Li Zuorong, Chairman of the Board of the Company, Mr. He Fuchun, General Manager, and Mr. He Xuesong, person in charge of Accounting and Principal in charge of Accounting Organ, hereby confirm that the Financial Report enclosed in the Annual Report is true and complete.

Section II. Company Profile

1. Legal name of the Company:
   In Chinese: 湖北沙隆达股份有限公司
   Abbr. in Chinese: 沙隆达
   In English: HUBEI SANONDA CO., LTD.
   Abbr. in English: SANONDA
2. Legal Representative: Li Zuorong
3. Secretary of the Board of Directors: Li Zhongxi
   Contact Address: No. 93, Beijing East Road, Jingzhou, Hubei
   Tel: (86) 716-8208632
   Fax:(86) 0716-8208899
   E-mail: li_zhongxi@263.net
   Securities Affairs Representative: Liang Jiqin
   Contact Address: No. 93, Beijing East Road, Jingzhou, Hubei
   Tel: (86) 716-8208232
   Fax:(86) 0716-8208899
   E-mail: freefly2006@263.net
4. Registered Address: No. 93, Beijing East Road, Jingzhou, Hubei
   Office Address: No. 93, Beijing East Road, Jingzhou, Hubei

Post Code: 434001

Website of the Company: http://www.sanonda.cn

E-mail of the Company: sld@chemchina.com.cn

5. Newspaper for Disclosing the Information Chosen by the Company:

   China Securities Journal, Securities Times and Ta Kung Pao

   Internet Web Site Designated by CSRC for Publishing the Annual Report of the Company: http://www.cninfo.com.cn

   The Place Where the Annual Report is Prepared and Placed: Office of the Company

6. Stock Exchange Listed With: Shenzhen Stock Exchange

   Short Form of the Stock: Sanonda A, Sanonda B

   Stock Code: 000553, 200553

7. Other Relevant Information of the Company

   Initial registration date: Nov. 30, 1993

   Initial registration organization: Hebei Province Administration Bureau for Industry and Commerce

   Registration code of corporate business license: QGEZ Zi No.: 002523

   Registration code of taxation: 421001706962287

   Name and office address of Certified Public Accountants engaged by the Company:

   Domestic: Vocation International Certified Public Accountants Co., Ltd.

   Office Address: Room 208, Building B of Huatong Mansion, No.19, Chegongzhuang West Road Yi, Haidian District, Beijing, PRC

   Name: Hong Kong Ho and Ho & Company Certified Public Accountants

   Office Address: 20/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong

Section III. Summary of Accounting Highlights and Business Highlights

I. Major financial data of the Company as of the year 2006

Unit: RMB'000

Items	**Amount**
Total Profit	31,121
Net Profit	19,322
Profit from main operations	221,638
Investment income	27,448
Net cash flow arising from operating activities	240,431
Net increase in cash and cash equivalents	77,183

II. Explanation on the difference in net profit as audited according to PRC Accounting Rules and Regulations and IFRS respectively

Other than the differences in the classifications of certain financial items and the accounting estimate for the items described below, there was no difference in accounting statement prepared based on PRC Accounting Rules and Regulations and IRRS. Effects of major differences between the PRC Accounting Rules and Regulations and IFRS on net profit are analysed as follows:

	2006 RMB'000	2005 RMB'000
Profit attributable to equity holders of the parent under the PRC Accounting Rules and Regulations	22,957	5,165
Adjustments:		
Provision for doubtful receivables	1,313	-
Adjustment of deferred revenue	(4,499)	-
Unrecognised investment losses being recognised	(1,607)	-
Amortisation of negative goodwill	(504)	-
Amortisation of deferred revenue	1,662	160
Adjustment for unrealised loss on investments		(1,287)
Others		(3,857)
Profit attributable to equity holders of the Company under IFRS	19,322	181

Effects of major differences between the PRC Accounting Rules and Regulations and IFRS on shareholders' fund are analysed as follows:

	2006 RMB'000	2005 RMB'000
Equity attributable to equity holders of the parent under the PRC Accounting Rules and Regulations	900,295	878,946
Adjustments:		
Provision for doubtful receivables	(19,596)	(20,911)
Amortisation of deferred revenue	1,822	160
Adjustment of deferred revenue	(5,804)	(1,305)
Transfer of opening negative goodwill to accumulated losses	-	358
Reversal of amortisation of goodwill	-	197
Reversal of amortisation of negative goodwill	-	(50)
Equity attributable to equity holders of the Company under IFRS	876,717	857,395

III. Major accounting data and financial indexes over the previous three years at the end of report period (Unit: RMB'000)

Financial indexes	2006	2005	Increase/decrease of this year over the last year	2004
Income from main operations	1,402,296	1,261,835	11.13%	1,134,082.00
Total profit	31,121	8,474.00	267.25%	61,738.00

Net profit	19,322	181	10575.14%	63,131.00
Net cash flow arising from operating activities	240,431	80,383.00	199.11%	55,648.00
	At the end of year 2006	**At the end of year 2005**	**Increase/decrease over the end of last year（%）**	**At the end of year 2004**
Total assets	1,597,498	1,650,082.00	-3.19%	1,541,286.00
Shareholders' equity (excluding minority interests)	876,717	857,395.00	2.25%	856,856.00

	2006	**2005**	**Increase/decrease of this year over the last year**	**2004**
Earnings per share	0.0651	0.001	6406.56%	0.21
Return on equity	2.20%	0.02%	2.18%	7.37%
Net cash flow per share arising from operating activities	0.81	0.27	199.87%	0.19
	At the end of year 2006	**At the end of year 2005**	**Increase/decrease over the end of last year（%）**	**At the end of year 2004**
Net assets per share	2.95	2.89	2.16%	2.89

IV. Changes in shareholders' equity as of report period

	Attributable to equity holders of the Company						
	Share capital RMB'000	**Capital reserve RMB'000**	**Surplus reserve RMB'000**	**Accumulated losses RMB'000**	**Total RMB'000**	**Minority interests RMB'000**	**Total RMB'000**
At 1st January 2005	296,962	565,633	62,676	(68,415)	856,856	28,859	885,715
Effect of change in consolidation	-	-	-	-	-	(7,033)	(7,033)
Effect of change in accounting policy	-	-	-	358	358	-	358
Profit for the year	-	-	-	181	181	958	1,139
At 31st							

December 2005 and 1st January 2006	296,962	565,633	62,676	(67,876)	857,395	22,784	880,179
Dividend paid to minority interests of subsidiaries	-	-	-	-	-	(2,723)	(2,723)
Profit for the year	-	-	-	19,322	19,322	4,160	23,482
At 31st December 2006	296,962	565,633	62,676	(48,554)	876,717	24,221	900,938

Section IV. Changes in Share Capital and Particulars about Shareholders

I. Particulars about changes in share capital

(I) Statement of change in share capital

	At 1/1/2005 and 1/1/2006	Reallocation of share capital	At 31/12/2006
	No. of shares ('000) & RMB'000	No. of shares ('000) & RMB'000	No. of shares ('000) & RMB'000
Registered, issued and fully paid:			
Listed:			
Publicly owned A shares of RMB1.00 each	97,232	21,391	118,623
Publicly owned B shares of RMB1.00 each	115,000	-	115,000
	212,232	21,391	233,623
Unlisted:			
State-owned A shares of RMB 1.00 each	3,003	(758)	2,245
State-owned individual A shares of RMB1.00 each	81,727	(20,633)	61,094
	84,730	(21,391)	63,339
	296,962	-	296,962

All A shares and B shares rank pari passu in all respects.

The resolution of the scheme of reallocation of share capital has been passed at corresponding shareholders' meeting in the A share market on 18th July 2006. All publicly owned A share shareholders are entitled to receive 2.2 shares with equivalent value for every 10 shares held in the shares register at the date of the change in shares on 2nd August 2006. The unlisted shareholders had to pay for the 21,391,100 shares to listed shareholders. The equivalent valued shares have been traded on 3rd August 2006. After the scheme has completed, Sanonda Group Company who is the largest substantial shareholder holds 61,093,600 shares representing 20.57% of total shares issued. (It held 81,726,625 shares representing 27.52% of total shares issued before the scheme).

(II) Particulars about issuance and listing of shares

1. Particulars about issuance of shares over the previous three years as at the end of the reporting period.

No share such as new share or share allotment and bonus share was issued by the Company over the previous three years as at the end of the report period.

2. Existing inner employee shares

As at the end of report period, the Company has no inner employee share.

II. Particulars about the shareholders

1. Number of shareholders and abut shares held

(1) At the end of the report period, the Company had 35671 shareholders in total, including 23596 shareholders of A-share and 12075 shareholders of B-share.

(2) At the end of the report period, particulars about shares held by the top ten shareholders of the Company:

Unit: share

Total number of shareholders at the end of report period				35671	
Particulars about shares held by the top ten shareholders					
Full name of Shareholder	**Type of shareholders**	**Proportion**	**Total number of shares held**	**Number of shares subject to moratorium held**	**Share pledged or frozen**
SANONDA GROUP CORPORATION	State-owned shareholder	20.15%	59,843,601	59,843,601	41,960,000
QICHUN COUNTY STATE-OWNED ASSETS ADMINISTRATION BUREAU	State-owned shareholder	0.76%	2,244,633	2,244,633	0
RURAL CREDIT COOPERATIVES UNION, SHASHI DISTRICT, JINGZHOU	State-owned shareholder	0.42%	1,250,000	1,250,000	0
TAIJI INVESTMENT CO., LTD.	Foreign shareholder	0.33%	1,000,000	0	0

GUANGQI INVESTMENT CO., LTD.	Foreign shareholder	0.33%	1,000,000	0	0
HUANG JUN YUE	Foreign shareholder	0.28%	820,000	0	0
TAN DONG SHAN	Tradable A share	0.27%	791,560	0	0
CAI WAN TONG	Foreign shareholder	0.26%	770,772	0	0
ABN AMRO BANK NV	Foreign shareholder	0.25%	754,000	0	0
JIANG GUO QUAN	Domestic shareholder	0.21%	621,640	0	0

Particulars about shares held by the top ten shareholders not subject to moratorium

Name of shareholders	**Number of shares subject to moratorium held**	**Type of shares**
TAIJI INVESTMENT CO., LTD.	1,000,000	Domestically listed foreign shares
GUANGQI INVESTMENT CO., LTD.	1,000,000	Domestically listed foreign shares
HUANG JUN YUE	820,000	Domestically listed foreign shares
TAN DONG SHAN	791,560	Domestically listed foreign shares
CAI WAN TONG	770,772	Domestically listed foreign shares
ABN AMRO BANK NV	754,000	Domestically listed foreign shares
JIANG GUO QUAN	621,640	RMB ordinary share
LI XUE YI	600,000	RMB ordinary share
WANG PING	583,878	RMB ordinary share
CHEN LEI	580,000	Domestically listed foreign shares
Explanation on associated relationship among the above shareholders or acting-in-concert	It is unknown whether there is any relationship among other shareholders, or whether there is any action-in-concert among them as defined in the Administrative Rules on Information Disclosure about Changing of Shareholding Status.	

Number of shares held by the top ten shareholders subject to moratorium and trading moratorium

Unit: share

No.	**Name of shareholders subject to moratorium**	**Number of shares subject to moratorium**	**Date on which shares can be listed for trading**	**Number of additional shares can be listed for trading (Note 1)**	**Trading moratorium**

1	Sanonda Group Corporation	2,244,633	2007- 8- 3	2,244,633	No trading or transferring within 12 months from the first trading day of A shares after the share merger reform proposal was implemented, it would comply with relevant regulations not to sell
2	Qichun County State-Owned Assets Administration Bureau	59,843,601	2009- 8- 3	59,843,601	No trading or transferring within 36 months from the first trading day of A shares after the share merger reform proposal was implemented, it would comply with relevant regulations not to sell
3	Rural Credit Cooperatives Union, Shashi District, Jingzhou	1,250,000	2009- 8- 3	1,250,000	No trading or transferring within 36 months from the first trading day of A shares after the share merger reform proposal was implemented, it would comply with relevant regulations not to sell

2. Particulars about the controlling shareholder and actual controller

(1) The controlling shareholder

Name of the controlling shareholder: Sanonda Group Corporation

Legal representative: Li Zuorong

Registered capital: RMB 240.66 million

Date of foundation: 1994

Scope of business: manufacturing and sales of chemical products and pharmaceutical products; import and export trade of pesticide, chemical products and chemical mechanical equipments and fittings; manufacturing and sales of chemical mechanical equipments; production and fixing of steel construction; fixing of chemical engineering and lease of housing.

(2) Actual controller

Name of the actual controller**:** ChemChina Agrochemical Corporation

Registered capital: RMB 300 million

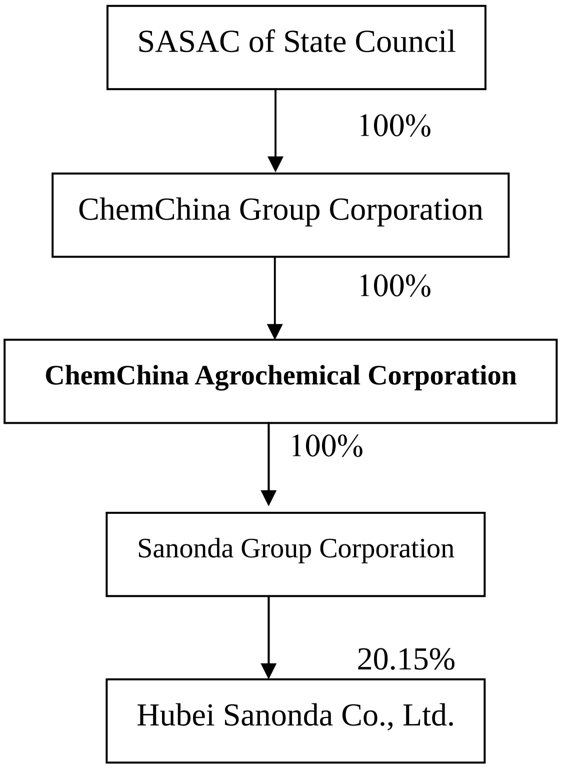
ChemChina Agrochemical Corporation is a large-scale stated-owned sole company subordinate to ChemChina Group Corporation, as well as the wholly-owned subsidiary of

ChemChina Group Corporation and one of the specialized companies under ChemChina Group Corporation, who is engaged in investment, development, production and operation of pesticides, chemical fertilizers, fine chemical products and minerals products. ChemChina Group Corporation subordinates to SASAC of State Council, which is state-owned large-scale corporation established after approval by the State Council in 2004.

(3) Particulars about change in the controlling shareholder and actual controller of the Company

In the report period, the Company's controlling shareholder and actual controller remained unchanged.

(4) Property and control relationship between the actual controller and the Company are as follows:



3. Other legal person shareholder holding over 10% share of the Company

There was no other legal person shareholder holding over 10% share of the Company in the report period.

Section V. Particulars about Directors, Supervisors and Senior Executives and Employees

I. Director, supervisor and senior executives

(I) Basic Information

Name	Title	Gender	Age	Beginning date of office term	Ending date of office term	Share held at the year-begin	Share held at the year-end	Increase or decrease	Total payment drawn from the Company in the report period (RMB'0000)	Drawing payment from the shareholding companies or other related parties or not (Yes / No)
Li Zuorong	Chairman of the Board	Male	56	2006-6 -30	2009-6 -30	3,000	3,660	Bonus share through Share Merger Reform	18	No
Liu Xingping	Director	Male	44	2006-6 -30	2009-6 -30	2,000	2,440	Bonus share through Share Merger Reform	16	No
He Fuchun	Director/GM	Male	41	2006-8 -28	2009-6 -30	2,000	2,440	Bonus share through Share Merger Reform	16	No
Liu Anping	Director/ Standing Deputy GM	Male	39	2006-6 -30	2009-6 -30				13	No
He Xuesong	Director/CFO	Male	51	2006-6 -30	2009-6 -30				13	No
Deng Guobin	Director/ Deputy GM	Male	39	2006-6 -30	2009-6 -30	2,000	2,440	Bonus share through Share Merger Reform	12	No
Ying Hong	Director	Male	39	2006-8 -28	2009-6 -30				8	No
Yu Jingzhong	Independent Director	Male	42	2006-6 -30	2009-6 -30				3	No
Li Shouming	Independent Director	Male	61	2006-6 -30	2009-6 -30				2	No
Li Hui	Independent Director	Female	38	2006-6 -30	2009-6 -30				2	No
Zhang Jianguo	Chairman of the Supervisory Committee	Male	53	2006-6 -30	2009-6 -30	2,000	2,440	Bonus share through Share Merger Reform	12	No
Xu Baojian	Supervisor	Male	50	2006-6 -30	2009-6 -30				3	No
Liu Jun	Supervisor	Female	45	2006-6 -30	2009-6 -30				3	No
Jiang	Supervisor	Male	32	2006-6 -30	2009-6 -30				3	No

Chenggang										
Yang Guang	Supervisor	Male	34	2006-6 -30	2009-6 -30				3	No
Li Zhongxi	Secretary of the Board	Male	36	2006-6 -30	2009-6 -30				6	
Total	-	-	-	-	-	11,000	13,420	-	133	-

Particulars about the main work experiences among present directors, supervisors and senior executives:

Mr. Li Zuorong successively took the posts of workshop technician, workshop director, section chief of technology section and director of design office of primary Sha City Pesticide Plant, and minister of project department, deputy general manager and director of the Company. Now he acts as Chairman of the Board and Secretary of CPC of the Company.

Mr. Liu Xingping successively took the posts of technician of primary Sha City Pesticide Plant, AND plant manager of Electrochemical Plant, director, deputy general manager, vice chairman of the board and general manager of the Company. He is now acts as director of the Company.

Mr. He Fuchun successively took the posts of section monitor of primary Sha City Pesticide Plant, senior chief director of workshop of the Company and plant manager of the Pesticide 1st Plant, deputy general manager of the Company. He is now acts as director and general manager of the Company.

Mr. Liu Anping successively took the posts of vice factory director, factory director of Energy Source Power Plant, deputy chief engineer and assistant general manager of the Company. He is now acts as director and standing deputy general manager of the Company.

Mr. He Xuesong successively took the posts of section monitor of the primary Sha City Pesticide Plant, section chief of financing office of Sha City Fuel-chemical Bureau, deputy minister and minister of financing department of Sanonda Group Corporation and deputy chief accountant and chief accountant of the Company. He is now in charge of director and chief financial officer of Company.

Mr. Deng Guobin successively took the posts of workshop director of the Company, plant manager of the Pesticide 1st Plant, deputy division chief of technology office of the

Company. He is now in charge of director and deputy general manager of the Company.

Mr. Ying Hong successively took the posts of vice factor manger of Fine Chemical Factory, manager of Keyuan Company, deputy chief engineer of the Company, head of development department of the Company. He is now in charge of director.

Mr. Yu Jingzhong entered into accounting department of South China Finance and Economics University through examination to study accounting in 1981, then was left to teach at it after graduation in 1985; in 1991 he was sent to Huangshi as president assistance of Commercial Bank, and then temporarily transferred into Shenzhen Procurator ate in 1992 and sent back to teach in the University from 1993 till now. He is now in charge of independent director of the 5th Board of Directors of the Company.

Mr. Li Shouming is the professor and Doctor Advisor of Economics and Management Dep. of Wuhan University. He is the expert who enjoys a special subsidy from the China State Council. Apart from that, he is Hubei Accounting Senior expert and technological consulting expert in Wuhhan, Hubei. He has worked in mathematics Depart of Wuhan University since he graduated from there in Jul.1970.he studied abroad in University of Duisburg in Germany from 1983 to 1999. He had been in Georg-August-University Goettingen as senior visiting scholar in 1995 for a half year, researching on finance strategy supporting system. And he was chief in financial accounting department from 1989 to 1999. he mainly assumed following social adjunct posts: Executive Director of Hubei Auditing Institute , Director of Hubei General Accounting Institute, Senior Consultant of Daxin accounting Co. Ltd. and CPA Research Magazine. He is now the Independent Director of 5th Board of Directors of the Company.

Ms. Li Hui is the Commercial Law graduate from China University of Political Science and Law and the partner, lawyer, ministry of Business Development Department in Hubei Ruitongtianyuan Law Firm; she also works as Deputy Chief of Hubei Council of Financial Securities, arbitrator of Wuhan Arbitrating Institute. She is now Independent Director of 5th Board of Directors of the Company.

Mr. Xu Baojian successively took the posts of deputy director of workshop of the primary Sha City Pesticide Plant, deputy plant manager of Energy Power Plant, secretary of Party branch of CPC and concurrently chairman of Labor Union of the Company. He is now in charge of supervisor of the Company and manager of Industrial Development Corporation.

Ms. Liu Jun successively took the posts of accountant of Financial Company, chief accountant of Sanonda Jingchun Company, chief accountant of Sanonda Jingzhou Agrochemical Company. Now she is in charge of supervisor of the 5th Supervisory Committee of the Company.

Mr. Jiang Chenggang has been respectively appointed as Section Chief in Quality Inspecting Section, Organizing Secretary of Political Department, Deputy Secretary of Party Branches, Vice President, Chairman of Labor Union, Deputy Division Chief and Division Chief of Political Department, Deputy Director of several phosphoresces of the Company. He is now Supervisor of the 5th Supervisory Committee of the Company.

Mr. Yang Guang had been appointed as the Workshop Manager of 2nd pesticide factory of the Company, Deputy Chief and Chief of the Controlling Center of the Production Section respectively. He is now the Supervisor of 5th Supervisory Committee.

Mr. Li Zhongxi successively took the posts of office secretary of the Company, manager of packaging company. Now he is in charge of secretary of the Board and concurrently office director of the Company.

(II) Particulars about directors and supervisors holing the position in shareholding company

Name	**Name of the Shareholding Company**	**Post in the Shareholding Company**	**Office term**
Li Zuorong	Sanonda Group Corporation	Chairman of the Board, Secretary of CPC	From Dec. 2005 till now
Liu Xingping	Sanonda Group Corporation	Director, General Manger	Aug. 2006 till now
He Fuchun	Sanonda Group Corporation	Director	Dec. 2005 till now
Liu Anping	Sanonda Group Corporation	Director	Aug. 2006 till now
Ying Hong	Sanonda Group Corporation	Assistant General Manager	Aug. 2006 till now

(III) Particulars about change on the directors, supervisors and senior executives in the report period:

In Jan. 2006, Mr. Wan Zheming resigned from the posts of Chairman of the Supervisory Committee and Supervisor, and that Mr. Zhang Jianguo was additionally elected as

Supervisor of the 4th Supervisory Committee and was appointed as Chairman of the Supervisory Committee of the Company.
In June 2006, the 4th Board of Directors and the 4th Supervisory Committee has expired and was reelected. The 5th Board of Directors consisted of Mr. Li Zuorong, Mr. Zheng Xianhai, Mr. Liu Xingping, Mr. He Fuchun, Mr. Liu Anping, Mr. He Xuesong, Mr. Deng Guobin, Mr. Yu Jingzhong, Mr. Li Shouming and Ms. Li Hui, of them, Mr. Yu Jingzhong, Mr. Li Shouming and Ms. Li Hui were elected as independent directors of the Company. The 5th Supervisory Committee consisted of Mr. Zhang Jianguo, Mr. Xu Baojian, Ms. Liu Jun, Mr. Yang Guang and Mr. Jiang Chenggang, of them, Mr. Zhang Jianguo and Mr. Xu Baojian was elected as employee supervisors.
In Aug. 2006, Mr, Zheng Xianhai resigned from the posts of Vice Chairman of the Board, Director and General Manager of the Company due to work adjustment. The Company additionally elected Mr. Ying Hong as Director of the 5th Board of Directors. Mr. He Fuchun resigned from the post of Deputy General Manager of the Company, but he was engaged as General Manger of the Company. Mr. Li Anping resigned from the post of Assistant General Manager of the Company, but he was engaged as Standing Deputy General Manager of the Company.

(IV) Particulars about the annual remuneration of directors, supervisors and senior executives
The Company set down salary plan and implementation measures to the senior executives. At the year-beginning, the Company would decide the appraisal index of operation achievements or management duties for the senior executives according to the overall development strategy and annual operating target; at the year-end, the Board appraised the senior executives based on the operation achievements and the fulfilled duties.
2. About employees
As at the end of the report period, the Company had totally 3411 employees, of them, 436 administrative personnel, 1035 technicians and 153 salespersons. The Company had 937 persons graduated from 3-years regular college graduate or above. The Company needs to bear expenses of 1885 retirees.

Section VI. Corporate Governance
I. Corporate governance of the Company
In the report period, in order to protect investors' interests, the Company continuously perfected its corporate governance according to Company Law, Securities Law, Stock Listing Rules of Shenzhen Stock Exchange and Administrative Rules for Listed Companies, and combining the Company's actual status, the Company established every rules of procedure and system in order to ensure the Shareholders' General Meeting, the

Board of Directors, the Supervisory Committee and Management Team to exercise their rights according to law and perform their duties.

1. Shareholders and Shareholders' General Meeting: the Company could treat all shareholders equally, fully respect and maintain shareholders' interests, especially medium and small investors. The Company abided the rules of information disclosure, performed duties of information disclosure, and actively improved quality of information disclosure, continually strengthened investors relationship management and timely answered all questions put by the Company's shareholders, consequently, ensured investors to enjoy the knowing and participation right for significant events of the Company regulated in laws and rules, and faithfully protected interests of shareholders especially medium and small investors.

2. Director and Board of Directors: The Company elected and engaged director according to the regulations of the Articles of Association of the Company. The number of the Board of Directors and holding qualification were in compliance with the regulations of the relevant laws, regulations and the Articles of Association. In the report period, the Board of Directors fully discussed and made decision with scientific, fast and careful way according to duties empowered by the Articles of Association and the Rules of Procedure for the Board of Directors.

3. Supervisor and Supervisory Committee: The Supervisory Committee conducted the supervision on lawfulness and regularity of financial status of the Company and performance of the directors and senior executives of the Company according to duties empowered by the Articles of Association and the Rules of Procedure for the Supervisory Committee, which protected the legal rights and interests of the Company and its shareholders.

II. Performance of duties of Independent Directors

1. In the report period, three independent directors of the Company patiently performed duties according to Articles of Association of the Company and Work System of Independent Director, actively learned the operating situation of the Company, presented their independent opinions on related transactions and operation decision-making of the Company which played an active role in scientific decision-making of the Board of Directors and the development of the Company.

2. In the report period, the Company totally held 8 Board meetings, 1 annual shareholders' general meeting and 2 extraordinary shareholders' general meetings. Three independent directors did not propose the objection on proposals of the Board meetings and proposals of other meetings. The Particulars about their attending the shareholders' general meeting is as follow:

Independent directors	Meetings should be attended	Times attending in person	Times of entrusting others to attend
Tan Liwen	11	11	0
Liao Hong	6	6	0
Yu Jingzhong	6	6	0

Of which, two independent directors, namely Li Shouming and Li Hui took such position since June 30, 2006.

III. Separation between the Company and the controlling shareholder in the respects of business, personal, assets, organization and financing

(I) Independence of the Company's business: The Company possessed the independent purchasing and sales system and independent operating capability. The Company existed no competition in the same industry with the controlling shareholder. The related transactions between them are legal, transparent and fair and the price is reasonable.

(II) Independence of the Company's personal: The Company established independent systems of labor, personal and wage. The procedure of holding concurrent post of the directors of the Company by senior executives of the controlling shareholder is legal. The General Manager, other senior executives and core technicians of the Company took the full time jobs in the Company and received the salary from the Company.

(III) Independence of the Company's assets: The assets of the Company are independent and the property is clear. The Company has independent production system, auxiliary production system and accessory installation. The Company has its own industrial property, trademark and non-patent technology related with the Company's operation.

(IV) Independence of the Company's organization: The Company has independent location of production and operation and office organization.

(V) Independence of the Company's financing: The Company has independent financial and accounting department, established normative and independent accounting settlement system and financial management system as well as independent bank account and independently pays tax.

IV. Performance appraisement and incentive mechanisms for senior management

The Company has established the plan on the remuneration of senior executives and its detailed enforcement method so as to unceasingly perfected performance appraisement and incentive mechanism for directors, supervisors and senior executives. The Company made out the product operations object and annual preplan of the Company every year, and carry out examination on senior executives according to the fulfillment of operation objects and development strategy and annual operation objects so as to confirm the amount of the efficiency annual remuneration of senior executives.

Section VII. Brief Introduction of Shareholders' General Meeting

I. About the annual shareholders' general meeting

The Company held the annual shareholders' general meeting 2005 on June 30, 2006. The relevant public notice on resolutions was published in China Securities Journal, Securities Times and Hong Kong Ta Kung Pao dated July 1, 2006.

II. About the extraordinary shareholders' general meeting

The Company held the shareholders' general meeting related with share merger reform of A share market on July 18, 2006. The relevant public notice on resolutions was published in China Securities Journal and Securities Times dated July 20, 2006.

The Company held the 1st extraordinary shareholders' general meeting 2006 on Sep. 15, 2006. The relevant public notice on resolutions was published in China Securities Journal, Securities Times and Hong Kong Ta Kung Pao dated Sep. 16, 2006.

Section VIII. Report of the Board of Directors

Ⅰ. Operation of the Company during the report period

1. Overall operation

In the report period, the Company realized sales revenue amounting to RMB 1,402,296,000, up 11.13% year-on-year, achieved the profit from main operations amounting to RMB 221,638,000, an increase of 3.67% compared with the same period of last year; realized net profit amounting to RMB 19,322,000, which was a 10574% increase over the same period of last year. The Company produced chemical pesticides of 36,090 tons, basically keeping the same level compared with the same period of last year, as well as caustic soda of 88,400 tons, up 7% year-on-year. The Company created foreign currency amounting to USD 63 million through export, and increase of 15% over that of the same period of last year.

2. Business status on main operation

(1) Main operation scope of the Company

Business scope of the Company: production and sales of pesticides and chemical products

(2) Table for the main operations of the Company in respect of industries and products

	2006 RMB'000Yuan	**2005** RMB'000 Yuan
Sales of pesticides and chemical products	1,399,739	1,261,112
Real Estate sales and other	2,557	723
	1,402,296	1,261,835

(3) The top five suppliers and top five customers of the company

Unit: RMB'000Yuan

Total purchasing amount of the top five suppliers	167,275	Percentage of the total	14.20%
Total sales amount of the top five customers	257,533	Percentage of the total	18.37%

3. Explanations of the significant changes of the company's asset composition within the report period

Unit: RMB'000Yuan

Items	Balance as at December 31, 2006	Balance as at December 31, 2005	Change year-on-year
Construction in progress	32,724	15,735	107.97%
Trading investment	27,843	642	4236.92%
Trading accounts receivable and other receivables	209,384	343,235	-39.00%
Bank deposit and cash	319,400	242,217	31.87%
Bank loan due within one year	235,588	319,938	-26.36%

Remarks: the property of land use increased.

① The increase of construction in progress was mainly due to the investment of 250T imidacloprid for the year;

② The increase of bank deposit and cash compared with the year-begin was mainly because of return of funds used by large shareholders and payment for goods.

③ The increase of trading investment compared with last year was mainly because of the increase of stock investment.

④ The trading accounts receivable and other receivable notes were used to enlarge the return of funds and occupying funds by the Company.

⑤ The decrease of bank loan due within one year was mainly because of the return of bank lending.

4. Analysis of the profit in the Company in the report period.

Project	**2006**	**2005**	**Increase/decrease by (%)**
Operating turnover	1,402,296	1,261,835	11.13%
Management expenses	-109,048	-91,286	19.46%

Investment income	27,448	-13,966	-296.53%
Profit before tax	31,121	8,474	267.25%

Remarks:

① The increase of operating turnover was mainly because of the increase of export.

② The increase of management expenses was mainly because of withdrawing of bad debt reserves.

③ The increase of investment income was mainly because of income from sales of Huaxin Cement legal person rights.

④ The increase of profit before tax was mainly because of the increase of main business income and investment income.

4. Explanations of the company's cash flow composition within the report period

Unit: RMB'000

Item	2006	2005	Increased or decreased
Net cash flows arising from operating activities	240,431	80,383	160,048
Net cash flows arising from investing activities	-50,710	-80,369	29,659
Net cash flows arising from financing activities	-112,538	-5,422	-107,116
Net increase of cash and cash equivalent	77,183	-5,408	82,591

Remarks:

① During the report period, the increase of the net cash flows resulted from operating activities was mainly due to the rapid capital withdrawal for the expanded exportation and the capital withdrawal for the domestic sale product.

② During the report period, the increase of the net cash flows resulted from investing activities was mainly due to the decrease of project investment such as engineering and technological renovation project.

③ During the report period, the decrease of the net cash flows resulted from financing activities was mainly due to the enhancement of loan return.

6. Analysis of the operation conditions and achievements of the main holding companies

Unit: RMB'000

Name of company	Proportion of shares	Nature of business	Main products or services	Registered capital	Total assets	Revenue of main business	Net profit
Sanonda Zhengzhou Pesticide Co., Ltd.	70.00%	Industrial production	Production of pesticides and chemical products such as omethoate and sodium hydroxide	40,000	256,750	192,100	1,840
Sanonda (Jingzhou) Pesticide and Chemical Industry Co., Ltd.	87.50%	Industrial production	Production of pesticides and intermediates	28,000	47,740	66,540	-1,840
Hubei Sanonda Tianmen Agrochemical Co., Ltd.	85.00%	Industrial production	Production and sales of pesticides	8,000	79,760	79,860	3,300
Jingzhou Longhua Petrochemical Co., Ltd.	65.00%	Industrial production	Production and sales of chemical products	5,000	22,440	66,370	850
Hubei Sanonda International Co., Ltd.	90.00%	Import & Export	Import & Export of pesticides and intermediates	10,000	104,320	103,090	2,220
Jinzhou Sanonda Finance Consulting Co., Ltd.	90.00%	consulting	Finance consulting, investment consulting and services	5,000	40,070	0	26,040
Hubei Fengyuan Chemical Industry Co., Ltd.	55.00%	Industrial production	Production and sales of NPK compound fertilizer	40,000	26,610	0	-9,850
Jingzhou Sanonda Aifusi Chemical Industry Co., Ltd.	51.00%	Industrial production	Research, development, production and sales of fine chemical products	6,000	8,800	9,160	1,150

Ⅱ. Prospect for the company's future development

(1) Development trend of the industry:

The Company belongs to is Pesticide and Chemical industry which is an important agriculture-supportive industry and have obviously seasonal feature. A great number of products are produced and used in certain seasons. Generally speaking, the former half year is the peak-hour of Pesticide production, and the period is from Mar. to Sep, which is the peak-hour of the usage. The Pesticide industry closely connects with climate changes, national agricultural policies, farming system and technological reform. The development trend of the pesticide industry is: new varieties of products continuously spring up, the markets of outdated products gradually shrink, the herbicides will develop with a spacious space and the merge and combine of Pesticide industries will become to a regular phenomena.

The “Eleventh Five-year” development plan of the pesticide industry will adjust industry structure, enforce scientific research investment and control environment pollution as the three development themes. The pesticide industry should be developed into an efficient, safe and applicable manner. As China is a traditional big agricultural country, the Pesticide industry will get supports of the government along with the attention to "San Nong"(agriculture, rural areas and farmers) policy.

(2) Business objective of the company in 2007

In 2006, the Company has successfully finished share merger reform and the interest of non-tradable shareholders and tradable shareholders tend to become consistent which is suitable for the Corporate Governance, the promotion of the standard operation and the long-term development of the Company. It has positive meaning for the evaluation of the overall value of the Company.

The business objective 2007 proposed by the group is: main business revenue RMB1.53 billion Yuan, foreign currency from export USD 70 million and increase of profits compared with the last year.

(3) Opportunities and challenges of the Company

China is now in the rising period of the new economic cycle, the international and costal industries are now being transferred to the central regions, the state “Central Region Prosperity” strategy is being gradually implemented and ChemChina Agrochemical Corporation and group is providing a development platform for and giving support and guidance to the company in the aspect of project, financing and management. All of these will provide historical opportunities and favorable conditions for the company’s development.

There are mainly three challenges: (1) Influence of the industry policy. The sales of methamidophos and methyl parathion in the domestic market are prohibited in an all-around way. In addition, the country has been strictly controlling the exportation of highly toxic pesticides. Both the domestic and overseas markets for the traditional products such as methamidophos and methyl parathion are in severe conditions. (2) Influence of the financial policies. Appreciation of RMB, international trade friction and lowering of the tax reimbursement rate of highly toxic pesticides will have certain influence on the company’s exportation. (3) Influence of the safety and environment protection requirements. Currently, as the human-oriented scientific development view is being implemented in the whole country and people’s requirements for safety and environment protection are becoming higher and higher, the company still has a lot of work to do in the implementation of the safety measures and environment comprehensive remediation and as to how to conduct clean production, environment protection and maintain a harmonious relationship between the enterprise and the surroundings and sustainable development.

Ⅲ. Investment of the company within the report period

1. Usage of the collected funds

During the report period, the Company had no collected funds or no extension of the funds collected before the report period to the report period.

2. Project of non-collected funds

Unit: RMB’000

Name of project	Investment within the report period	Project progress	In accordance with the planned progress and benefits or not
Electrobath portage	2,980	100%	Yes
250T Imidacloprid	3,920	100%	Yes
农一胺化连续化	3,680	100%	Yes
NCB project	3,620	100%	Yes
Total	14,200		

Ⅳ. Routine work of the board of directors

1. The work of the Board of Directors and the content of the resolutions

The Company held the 21st meeting of the 4th board of directors on Jan. 6, 2006 and the resolution announcement was published on China Securities Journal, Securities Times and Ta Kung Pao dated Jan. 7, 2006.

The Company held the 22nd meeting of the 4th board of directors on Jan. 20, 2006, and the resolution announcement was published on China Securities Journal, Securities Times and Ta Kung Pao dated Jan. 24, 2006.

The Company held the 23rd meeting of the 4th board of directors on Apr.18, 2006, and the resolution announcement was published on China Securities Journal, Securities Times and Ta Kung Pao dated Apr. 21, 2006.

The Company held the 24th meeting of the 4th board of directors on May 30, 2006, and the resolution announcement was published on China Securities Journal, Securities Times and Ta Kung Pao dated May 31, 2006.

The Company held the 1st meeting of the 5th board of directors on Jun.30, 2006 and the resolution announcement was published on China Securities Journal, Securities Times and Ta Kung Pao dated Jul.1, 2006.

The Company held the 2nd meeting of the 5th board of directors on Aug.12, 2006 and the resolution announcement was published on China Securities Journal, Securities Times and Ta Kung Pao dated Aug.19, 2006.

The Company held the 3rd meeting of the 5th board of directors on Aug. 28, 2006 and the resolution announcement was published on China Securities Journal, Securities Times and Ta Kung Pao dated Aug. 30, 2006.

2. The performance on the resolution of the Board of the Directors

The share merger reform program was performed. The Board of the Directors had printed the Public Notice on Implementing of Share Merger Reform in China Securities Journal and Securities Times dated Aug.1, 2006. According to the voting result of the shareholders' general meeting related with the share merger reform in A shares market, all tradable shareholders holding A shares received consideration shares at the rate of 2.2 shares for every 10 shares. The equity record date was Aug. 2, 2006 and the circulating date of consideration shares was Aug. 3, 2006.

Ⅴ. Profit distribution or capital reserve conversion and increase preplan

Audited according to the PRC Accounting Rules, the Company realized a net profit amounting to RMB 22,956,000 in 2006, the profits available for distribution to shareholders after making up the loss was RMB -14,465,000. According to IFRS, the net profit of the Company was RMB 19,322,000, the profits available for distribution to shareholders after making up the loss was RMB -48,554,000. According to the Lower of Cost or Market (LCM) principle, the profit available for distribution to shareholders after making up the loss for the year was RMB -48,554,000. According to the relevant stipulations of the Company Law and Articles of Association, the Board of Directors of the Company decided not to distribute profit for the year 2006. In accordance with commitment made by Sanonda Group Corporation (the controlling shareholder of the Company) during the share merger reform, the Company would plan to implement the program on transferring capital reserve into share capital at the rate of 10 shares for every 10 shares to all shareholders. Such preplan would be submitted to the 2006 shareholder's meeting for deliberation and approval.

According to the Lower of Cost or Market principle and audited as per the IFRS, the profits available for distribution to shareholders after making up the loss in the report period was RMB -48,554,000.00 Yuan and the undistributed profit was a negative number. Therefore, the Company had not proposed the cash profit distribution preplan.

Ⅵ. Preplan on transferring capital reserve into share capital

Sanonda Group Corporation would propose the proposal on transferring capital reserve into share capital at the rate of 10 shares for every 10 shares to all shareholders of Sanonda at the Annual Shareholders' General Meeting 2006. Such preplan would be submitted to the 2006 shareholder's meeting for deliberation and approval.

Ⅶ. Others

During the report period, the Company appointed China Securities Journal, Securities Times and Ta Kung Pao as authorized publications to publish its relevant information.

Section IX. Report of the Supervisory Committee

I. The work of Supervisory Committee during the report period

The Company held the 8th meeting of the 4th Supervisory Committee at the Water meeting room of the Company on Jan. 6, 2006， at which Mr. Zhang Jianguo was appointed as the Chairman of Supervisory Committee.

The Company held the 9th meeting of the 4th Supervisory Committee at the Water meeting room of the Company on Apr. 18, 2006, at which the following resolutions were examined and passed: ①Work Report 2005 of the Supervisory Committee; ②Financial Final Report 2005; ③Profit Distribution Preplan 2005; ④Annual Report 2005 and its Summary; ⑤Revised the accounting estimate modify and the significant accounting mistakes from the former annual accounting policy. ⑥the 1st Quarter report of 2006.

The Company held the 10th meeting of the 4th Supervisory Committee at the Water meeting room of the Company on May 29, 2006, at which two proposals were examined and passed as follows: ① the proposal on revision of the Article of Association. ② the proposal on the general election of the Supervisory Committee.

The Company held the 1st meeting of the 5th Supervisory Committee at the Water meeting room of the Company on June 30, 2006, at which the proposal on appointing Zhang Jianguo as chairman of the 5th Supervisory Committee was examined and passed.

The Company held the 2nd meeting of the 5th Supervisory Committee at the Water meeting room of the Company on Aug. 12, 2006, at which the following proposals were examined and passed: ① Interim Report 2006 and its Summary. ②Guarantee each other with Hechi chemical for RMB 120 million.

Ⅱ. Independent work report

①Operating according to laws. The members in the Supervisory Committee of the Company attended all the meetings of the Board as nonvoting delegates and supervised on the Company's decision-making and operation. The Supervisory Committee considered the procedures of the Company's decision-making were legal and internal control system was improved. In the daily work, the Company's directors, general manager and senior executives did not disobey laws and regulations and the Articles of Association of the Company, damage the interests of the Company or harm the interests of the shareholders and employees by abusing the authorities.

②Inspecting the Company's finance. In the report period, the Supervisory Committee inspected the Company's business and finance and considered that the unqualified auditor's report for 2006 presented by Vocation International Certified Public

Accountants Co., Ltd. and Hong Kong Ho And Ho & Company for the Company reflected the Company's financial position and operating results in an objective and true way.

③there was no raising-funds and usage of that funds during the report period.

④Independent opinion of the Supervisory Committee on purchase and sales of assets:

In the report period, the Company existed no significant purchase and sales of assets.

⑤Related transactions. The related transactions were fair and just, not harming the interests of the Company.

Section X. Significant Events

Ⅰ. Significant lawsuits and arbitrations

In the report period, the Company had no significant lawsuits or arbitrations.

Ⅱ. Purchase and sales of assets as well as mergers in the report period

In the report period, the Company had made no significant purchase or sales of assets or mergers.

Ⅲ. Important related transactions happened in the report period

The details were published on the appendix 27.

Ⅳ. Creditor's rights, liabilities and guarantees between related parties and the Company:

① related business of Creditor and liabilities

The details were published on the appendix 32.

② guarantees

The details were published on the appendix 32.

③ payment of funds occupation

During the report period, the balance of non-operating funds occupied by the controlling shareholders and subsidiaries of the Company was RMB 52.166 million. As at Apr. 20, 2006, the controlling shareholders and related parties has repaid the non-operation funds occupied.

Ⅴ. Trusteeship

In the report period, the Company had no trusteeship.

Ⅵ. In the report period, neither the Company nor the Board of Director or the Board had received any administrative punishment or notice of criticism from the CSRC, or had been criticized publicly by the Stock Exchange.

Ⅶ. Survey and interview received

In the report period, the Company received the call and visit patiently in accordance with the *Guidelines on Fair Information Disclosure of Companies Listed*. The Company and related information disclosure obligor obey the principle of Fair Information Disclosure, and implement no different treatment or divulge the non-public information ahead. There were more than 10 visitors of the Company during the report period.

Ⅷ. Implementation of social responsibility of the Company during the report period

① rights protection of Shareholders and Creditors: The Company treats all the Shareholders and Creditors fair, which ensured they can enjoy the legal rights fully prescribed by law and regulates.

②rights and interest protection of employees

The Company strictly followed Labor Law to protect the legal rights and interests of employees, set up and perfect employment system, including the Compensation System and Inspirit Encouraging Mechanism, by which ensured employees to enjoy the labor rights and perform the obligation.

③rights and interest protection of provider client and consumer

The Company always abides by the honest and faithful principle, and neither collects money by inveracious propagandize and advertisement, or infringe the copyright, trademark and patent right and other knowledge property of provider and client.

4. Environment protection and sustainable development

The Company established the policy of environment protection, and appointed the very department to responsible for providing performance, sustainment and improvement the environment protection system of manpower, essential material resource and technology.

5. The public relations and commonweal undertaking

The Company took part in the environment protection, poor serving and other social commonweal activities, which driven the development of the located area of company. Meanwhile, the Company received the supervision and inspection of government and supervisory institute, also, paid attention to the remark of the Company from the social commonage and media.

Ⅸ.Other significant events during the report period

1. The principal shareholder of the Company is Sanonda Group Corporation, who mortagaged 40. 86 million shares of the Company (taking up 13.76% of total share capital) hold by it to Industrial and Commercial Bank of China, Jingzhou Sha City Subbranch for loan of RMB 60 million on Dec. 1, 2005 with term limit of loan from Dec. 6, 2005 to June 17, 2008. Ended Dec. 31, 2006, the aforesaid mortagage didn’t unchain.

2. According to the need of production and operation development, the Company cleared up the subsidiaries not related with the main operation. The Company has liquidated Jingzhou Sanonda Real Estate Development Co., Ltd. in 2006.
3. The Company employed the Vocation International Certified Public Accountants Co., Ltd as the domestic Auditing Institute for the year 2006, and the auditing expense was RMB 450,000. Beijing Vocation Zixin Certified Public Accountants CPA, the domestic Auditing Institute who audited for the Company last year changed name as Vocation International Certified Public Accountants Co., Ltd.
4. The Company employed the ShineWing (HK) CPA Limited as the overseas Auditing Institute for the year 2006, and the auditing expense was HKD 500,000. Hong Kong Ho and Ho & Company Certified Public Accountants as the overseas Auditing Institute of the Company last year was merged the ShineWing (HK) CPA Limited.

Ⅹ. Implementation of commitments related Share Merger Reform

1. Share Merger Reform

   The plan of share merger reform was examined and passed on the Shareholders' general meeting related to A shares market on July 18, 2006. All A shareholders who were registered at the registration date of change can gain 2.2 consideration shares paid by non-tradable shareholders for every 10 tradable A shares. Non-tradable shareholders have totally paid the tradable shareholders for 21,391,100 shares and the consideration shares were listed on Aug. 3, 2006. After share merger reform, the principal shareholder Sanonda Group Corporation held 61,093,600 shares, accounting for 20.57% of total shares. (before the share merger reform, it held 81,726,625 shares, taking up 27.52% of total shares.)
2. Related commitments and implementation of principal shareholder

   The commitments from controlling shareholder of the Company --- Sanonda Group Corporation:

⑴ All the non-tradable shareholders of the Company will abide the law regulation and perform the basest commitments prescribed by law.

⑵ Besides the basest commitments, Sanonda Group Corporation also made the following special commitments:

① No trading or transferring within 36 months from the first trading day of A shares after the share merger reform proposal was implemented, it would comply with relevant regulations not to sell.

② Sanonda Group would propose the proposal on transferring capital reserve into share capital at the rate of 10 shares for every 10 shares to all shareholders of Sanonda at the Annual Shareholders' General Meeting 2006, and would vote the affirmative vote.

⑶ All the non-tradable shareholders committed that if there exists disobey the commitment and sold shares within the commitment period, or the income form shares sold would pay for the registered tradable A shareholders in accordance with proportion as guarantee fund at the very time of breach of faith.

Ⅺ. In the late of report period, the increase and decrease between number of tradable shares not subject to moratorium held by original nontradable shareholders holding over 5% and number of shares subject to moratorium held on the listing day of Share Merger Reform.

At the end of report period, former nontradable shareholders holding above 5% --- Sanonda Group Corporation held no tradable share not subject to moratorium. The trading date of Share Merger Reform committed didn’t mature, so there is no change in the number of shares held on listing date of shares subject to moratorium during the report period.

Section XI Financial Report

Hubei Sanonda Co., Limited

Report and Consolidated Financial Statements
For the year ended 31st December 2006

Hubei Sanonda Co., Limited

Report and Consolidated Financial Statements
For the year ended 31st December 2006

Contents

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF B SHARE of HUBEI SANONDA CO., LIMITED
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Hubei Sanonda Co., Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 3 to 38, which comprise the consolidated balance sheet as at 31st December 2006, 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 consolidated financial statements

The directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated 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 consolidated financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 Company'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 Company'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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December 2006 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practising Certificate Number : P03224

Hong Kong
29 th March 2007

Hubei Sanonda Co., Limited

Consolidated income statement
For the year ended 31st December 2006

	Notes	2006 RMB'000	2005 RMB'000
Turnover	5	1,402,296	1,261,835
Cost of sales		(1,180,658)	(1,048,035)
Gross profit		221,638	213,800
Other operating income		7,875	10,934
Distribution expenses		(70,965)	(76,614)
Administrative expenses		(109,048)	(91,286)
Other operating expenses		(10,938)	(5,022)
Finance costs, net	6	(34,889)	(29,372)
Investment income		27,448	(13,966)
Profit before taxation	7	31,121	8,474
Income tax expenses	8	(7,639)	(7,335)
Profit for the year		23,482	1,139
Attributable to			
Equity holders of the Company		19,322	181
Minority interests		4,160	958
		23,482	1,139
Earnings per share – Basic	10	RMB0.07	RMB0.01

Hubei Sanonda Co., Limited

Consolidated balance sheet
As at 31st December 2006

	Notes	2006 RMB'000	2005 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	12	433,934	478,148
Land use rights	13	177,675	157,954
Construction in progress	14	32,724	15,735
Investments in associates	15	5,115	5,115
Available-for-sale investments	16	15,200	30,247
Intangible assets	17	3,883	4,245
Goodwill	18	-	1,975
Negative goodwill	19	-	-
Other assets		198	289
Total non-current assets		668,729	693,708
Current assets			
Inventories	20	333,128	336,199
Investments held for trading	21	27,843	642
Trade and other receivables	22	209,384	343,235
Income tax recoverable		1,974	2,699
Prepaid expenses and other current assets	22	37,040	31,382
Bank balances and cash	22	319,400	242,217
Total current assets		928,769	956, 374
Total assets		1,597,498	1,650,082

Hubei Sanonda Co., Limited

Consolidated balance sheet (Continued)
As at 31st December 2006

	Notes	2006 RMB'000	2005 RMB'000
Equity and liabilities			
Capital and reserves			
Share capital	23	296,962	296,962
Reserves		579,755	560,433
Equity attributable to equity holders of the Company		876,717	857,395
Minority interests		24,221	22,784
Total equity		900,938	880,179
Non-current liabilities			
Deferred revenue	26	14,792	15,922
Bank borrowings – due after one year	27	90,000	90,000
Total non-current liabilities		104,792	105,922
Current liabilities			
Trade and other payables	28	356,180	344,043
Bank borrowings – due within one year	27	235,588	319,938
Total current liabilities		591,768	663,981
Total liabilities		696,560	769,903
Total equity and liabilities		1,597,498	1,650,082

The consolidated financial statements on pages 3 to 38 were approved and authorised for issue by the Board of Directors on 29th March 2007 and are signed on its behalf by:

Director

Director

Hubei Sanonda Co., Limited

Consolidated statement of changes in equity
For the year ended 31st December 2006

	Attributable to equity holders of the Company						
	Share capital RMB'000 (note 23)	**Capital reserve** RMB'000 (note 24)	**Surplus reserve** RMB'000 (note 25)	**Accumulated losses** RMB'000	**Total** RMB'000	**Minority interests** RMB'000	**Total** RMB'000
At 1st January 2005	296,962	565,633	62,676	(68,415)	856,856	28,859	885,715
Effect of change in consolidation	-	-	-	-	-	(7,033)	(7,033)
Effect of change in accounting policy	-	-	-	358	358	-	358
Profit for the year	-	-	-	181	181	958	1,139
At 31st December 2005 and 1st January 2006	296,962	565,633	62,676	(67,876)	857,395	22,784	880,179
Dividend paid to minority interests of subsidiaries	-	-	-	-	-	(2,723)	(2,723)
Profit for the year	-	-	-	19,322	19,322	4,160	23,482
At 31st December 2006	296,962	565,633	62,676	(48,554)	876,717	24,221	900,938

Hubei Sanonda Co., Limited

Consolidated cash flow statement
For the year ended 31st December 2006

	2006 RMB'000	2005 RMB'000
Operating activities		
Profit before taxation	31,121	8,474
Adjustments for:		
Impairment loss of assets	34,476	6,623
Depreciation of property, plant and equipment	59,919	54,938
Amortisation of land use rights	3,691	3,535
Amortisation of intangible assets	362	326
Amortisation of other assets	1,644	10,954
Deferred revenue released to income	(1,662)	(160)
Loss/ (gain) on disposal of property, plant and equipment	3,388	(381)
Interest expenses	35,700	30,228
Interest income	(4,608)	(3,079)
Operating cash flows before movements in working capital	164,031	111,458
Decrease / (increase) in inventories	2,227	(79,995)
Decrease / (increase) in trade and other receivables	53,745	(66,988)
(Increase) / decrease in prepaid expenses and other current assets	(5,658)	21,711
Increase in trade and other payables	33,725	94,197
Cash generated from operations	248,070	80,383
PRC income tax paid	(7,639)	-
Net cash from operating activities	240,431	80,383

Hubei Sanonda Co., Limited

Consolidated cash flow statement (Continued)
For the year ended 31st December 2006

	2006 RMB'000	2005 RMB'000
Net cash from operating activities	240,431	80,383
Investing activities		
Government grants received	-	7,420
Net cash proceeds from disposal of property, plant and equipment	3,682	256
Net cash proceeds from disposal of investments	53,267	43,994
Purchase of property, plant and equipment	(71,416)	(97,697)
Dividends received	246	456
Purchase of other long-term investments	(36,489)	(34,798)
Net cash used in investing activities	(50,710)	(80,369)
Financing activities		
Interest paid	(32,796)	(32,376)
Interest received	4,608	3,079
New bank loans raised	271,000	348,000
Repayment of bank borrowings	(355,350)	(324,125)
Net cash used in financing activities	(112,538)	(5,422)
Net increase / (decrease) in cash and cash equivalents	77,183	(5,408)
Cash and cash equivalents at beginning of the year	242,217	247,625
Cash and cash equivalents at end of the year	319,400	242,217

Hubei Sanonda Co., Limited

Notes to the consolidated financial statements
For the year ended 31st December 2006

1. General information

Hubei Sanonda Co., Limited (the “Company”) was established as a joint stock limited company in the People’s Republic of China (the “PRC”) on 30th September 1992. Its domestically listed ordinary public shares (“A shares”) and domestically listed foreign ordinary public shares (“B shares”) have been listed on the Shenzhen Stock Exchange since December 1993 and May 1997 respectively. The addresses of the registered office and principal place of business of the Company are No. 93, Beijing East Road, Jingzhou, Hubei.

The Company considers that Sanonda Group Company (“SGC”) is its ultimate parent company.

The Company together with its subsidiaries are collectively referred to as the “Group”.

The Group is principally engaged in the manufacturing and sale of agrochemical and chemical products.

As at 31st December 2006, the Company has direct or indirect interests in the following subsidiaries, all of which are incorporated in the PRC. Particulars of which are set out below:

Name of subsidiaries	Attributable equity interests	Principal activities
Sanonda (Jinzhou) Agrochemical Co., Limited	87.50%	Manufacture of agrochemicals and medicinal products
Hubei Sanonda International Trade Co., Limited	90.00%	Import and export sales of agrochemical and medicinal products
Sanonda Zhengzhou Agrochemical Co., Limited	70.00%	Manufacture of agrochemical and chemical products
Hubei Sanonda Tianmen Agrochemical Co., Limited	85.00%	Manufacture and sale of agrochemicals
Jinzhou Sanonda Real Estate Development Co., Limited	90.00%	Development and sale of real estate, sale of construction materials
Jinzhou Long hua Chemical Co., Limited	65.00%	Manufacture and sale of chemical products
Jinzhou Sanond finance consultation Co., Limited	90.00%	Consultation service on finance and investment

During the year, Jinzhou Sandonda Real Estate Development Co., Limited has already commenced its winding up process after the resolution has passed in the shareholders’ meeting. Currently the relevant business and tax deregistration procedures are undergoing.

2. Application of new and amended International Financial Reporting Standards

In the current year, the Group has applied, all new International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("the IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1st January 2006. The adoption of the new IFRSs, IASs and Interpretations had no material effect on how the results for the current or prior accounting years are prepared and presented.

At the date of these consolidated financial statements authorised for issue, the following IFRSs, IASs and Interpretations were in issue but not yet effective:

IAS 1 (Amendment)	Capital disclosures[1]
IFRS 7	Financial instruments : Disclosures[1]
IFRS 8	Operating segements[2]
IFRIC 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economics[3]
IFRIC 8	Scope of IFRS 2[4]
IFRIC 9	Reassessment of embedded derivatives[5]
IFRIC 10	Interim Financial Reporting and Impairment[6]
IFRIC 11	Group and Treasury Share Transactions[7]
IFRIC 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1st January 2007.
[2] Effective for annual periods beginning on or after 1st January 2009.
[3] Effective for annual periods beginning on or after 1st March 2006.
[4] Effective for annual periods beginning on or after 1st May 2006.
[5] Effective for annual periods beginning on or after 1st June 2006.
[6] Effective for annual periods beginning on or after 1st November 2006.
[7] Effective for annual periods beginning on or after 1st March 2007.
[8] Effective for annual periods beginning on or after 1st January 2008.

The directors anticipate that the adoption of these IFRSs, IASs and Interpretations in future periods will have no material impact on the consolidated financial statements of the Group.

3. Principal accounting policies

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which were measured at fair values as explained in the accounting policies set out below. The financial statements have been prepared in accordance with IFRSs and IASs.

a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the IFRS promulgated by the IASB. IFRS includes IAS and related interpretations.

The Group maintains its accounting records and prepares its statutory financial statements in accordance with PRC Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises ("Statutory Financial Statements").

3. Principal accounting policies (Continued)

a) Statement of compliance (continued)

The accounting policies and basis adopted to the preparation of the Statutory Financial Statements differ in certain respects from IFRS. The differences arising from the restatement of the results of operations and the net assets for compliance with IFRS are adjusted in consolidated financial statements but will not be taken up in the accounting records of the Group.

b) Basis of preparation

The consolidated financial statements have been prepared in Renminbi ("RMB"), the currency in which the majority of the Group's transactions are denominated.

Except for certain financial instruments which are stated at their fair values, the consolidated financial statements have been prepared on the historical cost basis.

The accounting policies have been consistently applied by the Group and are consistent with those of the previous years.

The principal accounting policies adopted in this report are set out below.

c) Basis of consolidation

The consolidation financial statements include the financial statements of the Company and its subsidiaries made up to 31st December each year. Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The results of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to the profit from ordinary activities after taxation. All significant inter-company balances, transactions, and any unrealised gains arising from intercompany transactions are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. Principal accounting policies (Continued)

d) Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are not significant to the consolidated financial statements of the Group both individually and taken as a whole. They are not accounted for by the equity method of accounting. Instead, they are regarded as non-trading financial assets, and are stated at cost less provision for impairment loss.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interests in the relevant associate.

e) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Currency Units, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. Principal accounting policies (Continued)

e) Foreign currencies (continued)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Currency Units using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

f) Property, plant and equipment

i) Owned assets

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and impairment losses.

Where an item of property, plant and equipment comprises major components having difference useful lives, they are accounted for as separate items of property, plant and equipment.

ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment, including inspection and overhead expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the consolidated income statement as an expense as incurred.

iii) Depreciation

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. The estimated useful lives are as follows:

	Year
Buildings	24 years
Machinery and equipment	9 – 18 years
Motor vehicles	9 years

3. Principal accounting policies (Continued)

f) Property, plant and equipment (continued)

iv) Disposals

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

g) Land use rights

Land use rights acquired are classified as operating leases. The prepaid lease payments are amortised on a straight-line basis over the leased periods.

h) Construction in progress

Construction in progress represents properties under construction and is stated in the consolidated balance sheet at cost less any accumulated impairment losses. Cost comprises direct cost of construction as well as interest charges and foreign exchange differences on related borrowing funds to the extent that they are regarded as an adjustment to interest charges during the period of construction.

Cost of completed construction works are transferred to appropriate category of property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided for construction in progress.

i) Intangible assets

Intangible assets that are acquired by the Group are stated in the consolidated balance sheet at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

j) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

3. Principal accounting policies (Continued)

j) Financial instruments

Financial assets

Available-for-sale investments

Available-for-sale investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Available-for-sale investments are non-derivatives investments. At each balance sheet date subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognised in equity, until the investment is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale investments are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent years.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

3. Principal accounting policies (Continued)

j) Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Borrowings

Interest-bearing loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequent measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

3. Principal accounting policies (Continued)

k) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combinations. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

l) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the asset to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as expense immediately.

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

3. Principal accounting policies (Continued)

m) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

The cost of inventories is calculated based on the weighted average costing method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

n) Completed properties for sale

Completed properties for sale are classified as current assets and stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to unsold properties, and an appropriate portion of production overheads and borrowing costs. Net realisable value represents the estimated selling price less the estimate costs necessary to make the sales.

o) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

p) Deferred revenue and government grants

Deferred revenue represents the portion of income relating to the unexpired period of government grants. A government grant is initially recognised as deferred revenue, when there is reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are recognised in the consolidated income statement on a systematic basis to match with the related costs which they are intended to compensate. Grant relating to assets is recognised in the accounts on a systematic basis over the useful life of the asset.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred revenue and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

3. Principal accounting policies (Continued)

q) Revenue recognition

(i) Sales of goods

Sales of goods are recognised when goods are delivered and title has passed.

(ii) Sales of completed properties

Sales of completed properties are recognised upon signing of the sale and purchase agreement when the significant risks and rewards of ownership have been transferred to the buyers. Deposits and installments received on properties sold prior to the date of revenue recognised are included in the consolidated balance sheet under deposits received in advance.

r) Expenses

(i) Operating lease payments

Rental payable under operating lease are charged to the consolidated income statement on straight-line basis over the terms of the respective leases. Lease incentive received is recognised in the consolidated income statement as an integral part of the total lease expenses and are also spread on a straight-line basis over the lease term.

(ii) Finance cost, net

Net finance costs comprise interest payable on borrowings, calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses.

Interest income is recognised in the consolidated income statement on a time basis by reference to the principal outstanding and at the interest rate applicable.

Interest expenses are recognised in the consolidated income statement using the effective interest rate method.

(iii) Borrowing costs

Borrowing costs are expensed in the consolidated 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 qualifying asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

3. Principal accounting policies (Continued)

r) Expenses (continued)

(iii) Borrowing costs (continued)

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are 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.

s) Retirement benefit costs

The Group participates in retirement schemes operated by local authorities and the payments to providing retirement benefits are charged to the consolidated income statement as they fall due. The Group has no further liability to the retirement schemes operated by the local authorities.

t) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Principal accounting policies (Continued)

t) Income tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 3 above, management has made the following judgments that have significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Allowance for bad and doubtful debts

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that its has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

4. Critical accounting judgments and key sources of estimation uncertainty (Continued)

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

5. Turnover

Turnover represents the net amount received and receivable from sales of agrochemical products and properties. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2006 RMB'000	2005 RMB'000
Sales of agrochemical products and chemicals	1,399,739	1,261,112
Sales of properties and others	2,557	723
	1,402,296	1,261,835

6. Finance costs, net

	2006 RMB'000	2005 RMB'000
Interest expenses	35,700	32,376
Less: Amount capitalised	-	(2,148)
	35,700	30,228
Interest income	(4,608)	(3,079)
Others	3,797	2,223
	34,889	29,372

7. Profit before taxation

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

	2006 RMB'000	2005 RMB'000
Depreciation on property, plant and equipment	59,919	54,938
Amortisation of land use rights	3,691	3,535
Amortisation of intangible assets	362	326
Staff costs (Note 7a)	80,838	61,132
Amortisation of deferred revenue	(1,662)	(160)

7a. Staff costs

The staff costs comprised:-

	2006 RMB'000	2005 RMB'000
Wages and salaries	64,648	54,178
Social security contributions	16,190	6,954
	80,838	61,132

8. Income tax expenses

Income tax expenses in the consolidated income statement represent:

	2006 RMB'000	2005 RMB'000
PRC income tax - current year	7,639	7,335

The reconciliation of taxation to the profit before taxation per consolidated income statement is as follows:

	2006 RMB'000	2005 RMB'000
Profit before taxation	31,121	8,474
Tax at the applicable statutory tax rate of estimated PRC income tax expenses	10,270	2,796
Tax effect of expenses not deductible for tax purposes	5,831	10,034
Tax effect of income not taxable for tax purposes	(8,462)	(5,495)
Taxation for the year	7,639	7,335

The provision for PRC income tax is calculated based on a statutory rate of 33% on the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC.

9. Dividends

The Directors do not recommend the payment of any dividend for the year.

10. Earnings per share

The earnings per share for the year ended 31st December 2006 is calculated based on the profit for the year attributable to equity holders of the parent of RMB 19,322,000 (2005: RMB 181,000) and the weighted average number of ordinary shares outstanding during the year of 296,962,000 shares (2005: 296,962,000 shares).

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in expositing during the years presented.

11. Employee benefit plan

As stipulated by the regulation of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial government for its staff. The Group is required to make contributions to the retirement plan at rates ranging from 16% to 30% of the salaries, bonus and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligations for the payment of pension benefits associated with these plans beyond the annual contribution described above.

The Group’s contributions to the defined contribution plans are recognised as expenses in the consolidated income statement as incurred.

12. Property, plant and equipment

	Buildings RMB'000	Machinery and Equipment RMB'000	Motor Vehicles RMB'000	Total RMB'000
Cost				
At 1st January 2005	286,423	594,526	12,883	893,832
Additions	19,293	115,094	1,021	135,408
Disposals	(25,804)	(58,770)	(371)	(84,945)
At 31st December 2005 and 1st January 2006	279,912	650,850	13,533	944,295
Additions	9,478	16,221	1,863	27,561
Disposals	(6,189)	(54,562)	(3,388)	(64,138)
At 31st December 2006	283,201	612,509	12,008	907,718
Accumulated depreciation				
At 1st January 2005	88,130	326,616	6,670	421,416
Charge for the year	17,254	36,095	1,589	54,938
Written back on disposals	(9,538)	(12,130)	(310)	(21,978)
At 31st December 2005 and 1st January 2006	95,846	350,581	7,949	454,376
Charge for the year	10,458	48,294	1,167	59,919
Written back on disposals	(3,067)	(46,654)	(2,561)	(52,282)
At 31st December 2006	103,237	352,221	6,555	462,013
Accumulated impairment losses				
At 1st January 2005	1,091	19,247	-	20,388
Written back on disposals	-	(8,567)	-	(8,567)
At 31st December 2005, 1st January 2006 and 31st December 2006	1,091	10,680	-	11,771
Net book values				
At 31st December 2006	178,873	249,608	5,453	433,934
At 31st December 2005	182,975	289,589	5,584	478,148

a) All buildings are located in the PRC under medium lease (lease periods of 10 years or more but less than 50 years).

b) During the year, additions of property, plant and equipment amounted to RMB11,902,000 (2005: RMB111,112,000) were transferred from construction in progress.

c) As at 31st December 2006, certain of the Group's property, plant and equipment amounted to RMB360,660,000 (2005: RMB387,180,000) were mortgaged as collateral for bank borrowings.

13. Land use rights

	RMB'000
Cost	
At 1st January 2005, 31st December 2005 and 1st January 2006	179,220
Additions	31,212
At 31st December 2006	210,432
Accumulated amortisation	
At 1st January 2005	9,059
Charge for the year	3, 535
At 31st December 2005 and 1st January 2006	12,594
Charge for the year	3,691
At 31st December 2006	16,285
Accumulated impairment losses	
At 1st January 2005, 31st December 2005 and 1st January 2006	8,672
Recognised for the year	7,800
At 31st December 2006	16,472
Net book values	
At 31st December 2006	177,675
At 31st December 2005	157,954

14. Construction in progress

	2006 RMB'000	2005 RMB'000
At 1st January	15,735	28,353
Additions	29,412	99,012
Transfer to property, plant and equipment	(11,902)	(111,112)
Transfer	(3)	-
At 31st December	33,242	16,253
Less: Impairment	(518)	(518)
	32,724	15,735

15. Investments in associates

	2006 RMB'000	2005 RMB'000
Unlisted shares, at cost	5,115	5,115

Name of associates	Attributable equity interests	Principal activities
Jinzhou Tianyang Huibao Micro Chemical Co., Limited	48.00%	Manufacture and sale of chemical products
Sanonda Dali Co.	33.70%	Manufacture and sale of packaging materials
Beijing Yingli Micro Chemical Co., Limited	33.75%	Manufacture and sale of chemical products

16. Available-for-sale investments

	2006 RMB'000	2005 RMB'000
Unlisted shares, at cost	25,001	29,419
Less: Provision for impairment	(11,991)	(11,991)
	13,010	17,428
Shares of listed companies in the PRC, at fair value	2,190	12,819
	15,200	30,247

As at the balance sheet date, all investments in the shares of listed companies in the PRC are stated at fair values. Fair values of listed investments have been determined by reference to bid prices quoted in active market.

17. Intangible assets

	RMB'000
Cost	
At 1st January 2005, 31st December 2005 and 31st December 2006	11,255
Accumulated amortisation	
At 1st January 2005	6,684
Charge for the year	326
At 31st December 2005 and 1st January 2006	7,010
Charge for the year	362
At 31st December 2006	7,372
Net book values	
At 31st December 2006	3,883
At 31st December 2005	4,245

18. Goodwill

	RMB'000
Cost	
At 31st December 2006	-
At 31st December 2005	1,975

19. Negative goodwill

	RMB'000
Cost	
At 1st January 2005	503
Effect of change in accounting policy	(503)
At 31st December 2005, 1st January 2006 and 31st December 2006	-
Accumulated amortisation	
At 1st January 2005	145
Effect of change in accounting policy	(145)
At 31st December 2005, 1st January 2006 and 31st December 2006	-
Carrying amount	
At 31st December 2006	-

At 31st December 2005	-

20. Inventories

	2006 RMB'000	2005 RMB'000
Raw materials	62,280	66,349
Work-in-progress	51,692	37,504
Finished goods	228,175	240,521
	342,147	344,374
Less: Allowance for diminution in value of inventories	(9,019)	(8,175)
	333,128	336,199

21. Investments held for trading

	2006 RMB'000	2005 RMB'000
Listed equity securities in the PRC	27,843	642

As at the balance sheet date, all the investments held for trading are stated at fair values. Fair values of listed investments have been determined by reference to bid prices quoted in active market.

22. Other current financial assets

Trade receivables, other receivables and other current assets at the balance sheet date comprise mainly amounts receivable from third parties. The amounts are repayable on demand.

The directors of the Group consider that the carrying amounts of the other current financial assets listed above approximate to their fair values.

Bank balances and cash comprise short-term bank deposits and cash on hand with an original maturity of three months or less. Among which were investment funds of RMB48,276,000 (2005 : Nil) placed with securities companies and guaranteed funds of RMB17,131,000 (2005 : Nil) for trust receipt loans from banks.

23. Share capital

	At 1/1/2005 and 1/1/2006	Reallocation of share capital	At 31/12/2006
	No. of shares ('000) & RMB'000	No. of shares ('000) & RMB'000	No. of shares ('000) & RMB'000
Registered, issued and fully paid:			
Listed:			
Publicly owned A shares of RMB1.00 each	97,232	21,391	118,623
Publicly owned B shares of RMB1.00 each	115,000	-	115,000
	212,232	21,391	233,623
Unlisted:			
State-owned A shares of RMB 1.00 each	3,003	(758)	2,245
State-owned individual A shares of RMB1.00 each	81,727	(20,633)	61,094
	84,730	(21,391)	63,339
	296,962	-	296,962

All A shares and B shares rank pari passu in all respects.

The resolution of the scheme of reallocation of share capital has been passed at corresponding shareholders' meeting in the A share market on 18th July 2006. All publicly owned A share shareholders are entitled to receive 2.2 shares with equivalent value for every 10 shares held in the shares register at the date of the change in shares on 2nd August 2006. The unlisted shareholders had to pay for the 21,391,100 shares to listed shareholders. The equivalent valued shares have been traded on 3rd August 2006. After the scheme has completed, Sanonda Group Company who is the largest substantial shareholder holds 61,093,600 shares representing 20.57% of total shares issued. (It held 81,726,625 shares representing 27.52% of total shares issued before the scheme).

24. Capital reserve

In accordance with the articles of association, the Company shall record the following as capital reserve: (i) share premium; (ii) donations; (iii) appreciation arising from revaluation of properties; and (iv) other items in accordance with the articles of association and relevant regulations in the PRC. Capital reserve may be utilised to offset prior years' losses or for the issuance of bonus shares.

As at 31st December 2006, the capital reserve of the Company mainly represents share premium, that is, net assets acquired from SGC in excess of par value of state shares issued and proceeds from the issuance of A shares and B shares in excess of their par value, net of expenses directly relating to the issue of the shares.

25. Surplus reserves

	2006 RMB'000	2005 RMB'000
Statutory surplus reserve (note a)	58,860	39,240
Statutory public welfare fund (note b)	-	19,620
Discretionary surplus reserve (note c)	3,816	3,816
	62,676	62,676

a) Statutory surplus reserve

According to the Company's Articles of Association, the Company and its subsidiaries are required to transfer 10% of its profit attributable to equity holders of the parent, as determined in accordance with the PRC Accounting Rules and Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into shares capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

b) Public welfare fund

According to the PRC laws, starting from 2006 the Company and its subsidiaries are no longer required to transfer their profits to the public welfare fund. The amounts transferred into this fund in previous years were transferred to the statutory surplus reserve during the year.

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c) Discretionary surplus reserve

Discretionary surplus reserve fund is appropriated after the appropriation of statutory surplus reserve and statutory public welfare reserve at the resolution of the Board of Directors and the discretion of the general shareholders' meeting. Its usage is similar to that of stationary surplus reserve.

26. Deferred revenue

Deferred revenue represents a government grant for purchase of plant and equipment. Such plant and equipment was put into operational use and has an average useful life of 10 years.

27. Bank borrowings

The analysis of the Group's bank borrowings are as follows:

	2006		2005	
	Interest rate per annum	Amount	Interest rate per annum	Amount
		RMB'000		RMB'000
Interest bearing loans				
Secured	5.76%-6.12%	323,588	5.76%-6.12%	407,938
Guaranteed	5.76%	2,000	5.76%	2,000
		325,588		409,938
Less: Amount overdue or repayable within one year		(235,588)		(319,938)
Amount due over one year		90,000		90,000

The above guaranteed bank loans were guaranteed by SGC.

The maturities of the Group's long-term bank borrowings are as follows:

	2006	2005
	RMB'000	RMB'000
Amount overdue	10,588	10,588
Within one year	225,000	309,350
	235,588	319,938
Between two to five years	90,000	90,000
After five years	-	-
	325,588	409,938

The Company was negotiating with the banks for renewing the relevant repayment terms. The directors are of the opinion that the negotiations will be concluded in the near future.

28. Other current financial liabilities

Trade and other payables principally comprise amounts payable to third parties.

The directors of the Group consider that the carrying amounts of the other current financial liabilities listed above approximate to their fair values.

29. Financial risk management objectives and policies

Financial assets of the Group include cash and cash equivalents and trade and other receivables. Financial liabilities of the Group include bank borrowings and trade and other payables. The Group has no derivative instruments that are designated and qualified as hedging instruments at 31st December 2006 and 2005. Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

a) Credit risk

The carrying amounts of cash and cash equivalents, receivables and investments represent the Group's maximum exposure to credit risk in relation to financial assets. Cash is placed with reputable banks.

The majority of the Group's trade receivable relate to sales of agrochemical products to related parties and third parties. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivable. The Group maintains an allowance for doubtful accounts and actual losses have been within management's expectations. The Group has no significant concentration of credit risk with any single counterparty or group counterparties.

b) Liquidity risk

The Group's implements prudent liquidity risk management, which implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilitates, and the ability to close out market positions.

c) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rate. The Group has no significant interest-bearing assets. The Group policy is to maintain all its borrowings in fixed rate instruments.

d) Foreign currency risk

The Group has no significant foreign currency transactions other than its overseas sales. Substantially all of the Group's overseas sales are denominated in United States dollars ("USD"). The Group does not enter into any foreign exchange forward contracts or use other means to hedge its exposure to USD. However, the Group's management closely monitors the fluctuation of the exchange rate of USD against that of RMB. Management of the Group believes that the Group's net exposure to USD will not result in significant exchange loss to the Group.

29. Financial risk management objectives and policies (continued)

e) Fair value

The directors consider that as the interest rates are rather steady in the foreseeable future. Therefore, the carrying value of the long-term bank borrowings as at 31st December 2006 and 2005 approximate to their fair values.

The fair value of the Group’s trading investment is based on quoted market prices at the balance sheet date. In assessing the fair value of non-trading securities and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

30. Commitments

At the balance sheet date, the directors are of the opinion that there is no material disclosable commitments.

31. Contingencies

At the balance sheet date, the directors are of the opinion that there is no material disclosable contingencies.

32. Related parties transactions

Companies are considered to be related if one company has ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they ate subject to common control or common significant influence.

The Group is part of a larger group of companies under SGC Group Company and has significant transactions and relationships with the SGC Group Company and fellow subsidiaries. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. SGC Group Company itself is owned by the PRC government. There are also many other enterprises directly or indirectly owned or controlled by the PRC government (“state-owned enterprises”). Under IFRS, state-owned enterprises, other than SGC Group Company and fellow subsidiaries, are not considered related parties. Related parties refer to enterprises over which SGC Group Company is able to exercise significant influence.

32. Related parties transactions (continued)

Name of related parties and relationship with the Group:

Name	Relationship
Agricultural Chemical of China Co., Limited	Holding company of SGC
SGC	Parent company
Subsidiaries of SGC	
Associates and investee companies	

The principal related party transactions are as follows:

	2006 RMB'000	2005 RMB'000
Agricultural Chemical of China Co., Limited	35,212	-
Purchase of raw materials from SGC and its subsidiaries	12,045	8,291
Transfer stock share to SGC	720	-
Purchase of raw materials from associates and investee companies	8,233	10,725
Rental income received from associates and investee companies	1,000	1,000

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions.

At the balance sheet date, the outstanding balances with the related parties are as follows:

	2006 RMB'000	2005 RMB'000
Due from Agricultural Chemical of China Co., Limited	1,570	-
Due from SGC and its subsidiaries	2,769	45,920
Due from associates and investee companies	39,741	51,819
	44,080	97,739

	2006 RMB'000	2005 RMB'000
Due to SGC and its subsidiaries	9,630	392
Due to unconsolidated subsidiaries and associates	1,691	1,452
	11,321	1,844

32. Related parties transactions (continued)

The amounts due from / to related parties are unsecured, non-interest bearing and repayable on demand.

In addition, SGC provided guarantee for the Group for the banking facilities granted. Details of which are set out in note 27.

33. Segment information

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

The Group comprises the following two business segments:

Agrochemical products: The manufacture and sale of agrochemical and chemical products, as well as research and development activities in this area.

Property development: The development and sale of residential properties.

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's segments are the same as those described in the principal accounting policies.

Corporate administrative costs and assets are not allocated to the operating segments.

33. Segment information (Continued)

Business segment

Reportable information on the Group's business segments is as follows:

	Agrochemical products		*Property development and others*		*Consolidated*	
	2006	*2005*	*2006*	*2005*	*2006*	*2005*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,399,739	1,261,112	2,557	723	1,402,296	1,261,835
Segment results						
Profit / (loss) from operations	36,749	52,791	1,813	(979)	38,562	51,812
Net finance costs	(34,889)	(29,791)	-	419	(34,889)	(29,372)
Investment income	27,448	(13,966)	-	-	27,448	(13,966)
Profit / (loss) before taxation	29,308	9,034	1,813	(560)	31,121	8,474
Income tax expenses	(7,639)	(7,335)	-	-	(7,639)	(7,335)
Profit for the year	21,669	1,699	1,813	(560)	23,482	1,139

	Agrochemical products		*Property development and others*		*Consolidated*	
	2006	*2005*	*2006*	*2005*	*2006*	*2005*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	1,594,586	1,632,391	2,912	17,691	1,597,498	1,650,082
Segment liabilities	695,290	766,750	1,270	3,153	696,560	769,903

34. **Differences Between financial statements prepared under the PRC Accounting Rules and Regulations and IFRS**

Other than the differences in the classifications of certain financial captions and the accounting for the items described below, there are no material differences between the Group's financial statements prepared under the PRC Accounting Rules and Regulations and IFRS.

Effects of major differences between the PRC Accounting Rules and Regulations and IFRS on net profit are analysed as follows:

	2006 RMB'000	2005 RMB'000
Profit attributable to equity holders of the parent under the PRC Accounting Rules and Regulations	22,957	5,165
Adjustments:		
Provision for doubtful receivables	1,313	-
Adjustment of deferred revenue	(4,499)	-
Unrecognised investment losses being recognised	(1,607)	-
Amortisation of negative goodwill	(505)	-
Amortisation of deferred revenue	1,663	160
Adjustment for unrealised loss on investments		(1,287)
Others		(3,857)
Profit attributable to equity holders of the Company under IFRS	19,322	181

Effects of major differences between the PRC Accounting Rules and Regulations and IFRS on shareholders' fund are analysed as follows:

	2006 RMB'000	2005 RMB'000
Equity attributable to equity holders of the parent under the PRC Accounting Rules and Regulations	900,295	878,946
Adjustments:		
Provision for doubtful receivables	(19,596)	(20,911)
Amortisation of deferred revenue	1,822	160
Adjustment of deferred revenue	(5,804)	(1,305)
Transfer of opening negative goodwill to accumulated losses	-	358
Reversal of amortisation of goodwill	-	197
Reversal of amortisation of negative goodwill	-	(50)
Equity attributable to equity holders of the Company under IFRS	876,717	857,395

Section XII. Documents for Reference

1. Accounting Statement carrying the signatures and seals of the legal representative, and persons in charge of accounting
2. Original of the Auditors' Report carrying the seals of Certified Public Accounts, and the signatures and seals of the CPAs
3. Originals of all the documents of the Company ever disclosed publicly on the information-disclosure media designated by CSRC, as well as original manuscripts of all notifications of the Company
4. Original of the Annual Report 2005 of the Company

Hubei Sanonda Co., Ltd.

Chairman of the Board: Li Zuorong

Apr. 31, 2006