

**Management Report for Technico Horticultural (Kunming) Co Ltd.**

**Corporate Information**

Technico Horticultural (Kunming) Co Ltd (“Company”) is domiciled in Yunnan Province, People’s Republic of China. Its parent entity is Technico Asia Holdings Pty Ltd (formerly Technico China Pty Ltd), a company incorporated in Australia.

The registered office of the Company is located at,

A-38 Yanglin Industrial Development Zone,  
Songming,  
Yunnan Province,  
People’s Republic of China.

There were 59 employees on the rolls of the Company as at 31 December, 2008.

**Principal activities**

The Company is primarily engaged in production and supply of TECHNITUBER® seed potatoes to domestic and export markets.

**Business Review**

For the year under review, the Company achieved a turnover of CNY 11,679,118 (2007: CNY 14,313,363) and a net loss of CNY 2,856,137 (2006: profit of CNY 821,537). The Company is continuing its discussions with government authorities and advisors concerning its ownership structure and operational status.

In view of the accumulated losses, no dividends have been paid or declared during the financial year.

**Auditors**

The Company has engaged M/s Yunnan Tianying Certified Public Accountants as auditors for the year under review whose report is annexed to the financial report.

**Environmental regulation and performance**

Your Company complies with the environmental regulations set by the Songming Environmental Bureau.

**Sachidanand Madan**  
**Legal Representative**

Place:

Date: 18<sup>th</sup> March 2009

**Audit Report**

**To the management  
Technico Horticultural (Kunming) Co., Ltd.**

We have audited the attached financial statements of Technico Horticultural (Kunming) Company (the "Company"), including the balance sheet as at 31 December 2008, and the income and Statement Of Changes In Equity, cash flow statement, notes to financial statements for the year ended 31 December 2008.

**1. Responsibility of the Company's management for the financial statements**

The Company's responsibility is to prepare these financial statements in accordance with the requirements of "The Accounting Standards for PRC Enterprises" and "The Accounting Systems of PRC Enterprises", which includes (1) designing, implementing and maintaining the internal controls relative to the preparation of these financial statements, so that there aren't material misstatements in these financial statements led by fraud and error; (2) selecting and using proper accounting policies and making rational accounting estimates.

**2. Responsibility of the certified public accounts**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Independent Auditing Standards of China. The standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

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

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

**3. Audit opinion**

In our opinion, the financial statements have been prepared in accordance with the requirements of "The Accounting Standards for PRC Enterprises" and "The Accounting Systems of PRC Enterprises". The financial statements fairly present the financial position of the Company as at 31 December 2008, operating results and cash flows for the year then ended in all material respects.

Yunnan Tianying Certified Public Accountants

Certified Public Accountants:

Certified Public Accountants:

Kunming, The People's Republic of China

18 March 2009

## BALANCE SHEET AS ON 31 DECEMBER 2008

| ITEMS  | LINENO | 31/Dec/07         | 31/Dec/07          | 31/Dec/08         | 31/Dec/08          |
|--|--------|-------------------|--------------------|-------------------|--------------------|
|  |        | CNY               | INR                | CNY               | INR                |
| <b>CURRENT ASSETS :</b>                              | 1      |                   |                    |                   |                    |
| Cash and cash equivalents                            | 2      | 313,174           | 1,693,146          | 6,576,477         | 47,217,131         |
| Transaction monetary assets                          | 3      | 0                 | 0                  | 0                 | 0                  |
| Short-term investments                               | 4      | 0                 | 0                  | 0                 | 0                  |
| Notes receivable                                     | 5      | 0                 | 0                  | 0                 | 0                  |
| Accounts receivable                                  | 6      | 4,019,759         | 21,732,424         | 2,431,152         | 17,454,940         |
| Advance to suppliers debts                           | 7      | 70,000            | 378,448            | 6,633             | 47,624             |
| Dividend receivable                                  | 8      | 0                 | 0                  | 0                 | 0                  |
| Interest receivable                                  | 9      | 0                 | 0                  | 0                 | 0                  |
| Other notes receivable                               | 10     | 245,077           | 1,324,986          | 115,762           | 831,139            |
| Inventories  | 11     | 5,113,874         | 27,647,646         | 4,207,773         | 30,210,549         |
| Including : Raw materials                            | 12     | 0                 | 0                  | 0                 | 0                  |
| Finished goods                                       | 13     | 3,958,198         | 21,399,603         | 3,881,481         | 27,867,872         |
| In one year expired noncurrent assets                | 14     | 0                 | 0                  | 0                 | 0                  |
| Other current assets                                 | 15     | 21,230            | 114,776            | 20,272            | 145,546            |
| <b>Total current assets</b>                          | 16     | <b>9,783,114</b>  | <b>52,891,427</b>  | <b>13,358,069</b> | <b>95,906,930</b>  |
| <b>NONCURRENT ASSETS :</b>                           | 17     |                   |                    |                   |                    |
| Financial assets available for sale                  | 18     |                   |                    |                   |                    |
| Hold investment due                                  | 19     |                   |                    |                   |                    |
| Long-term investment on bonds                        | 20     |                   |                    |                   |                    |
| Long-term account receivable                         | 21     |                   |                    |                   |                    |
| Long-term investment on stocks                       | 22     |                   |                    |                   |                    |
| Right to trade in previously non-tradable shares     | 23     |                   |                    |                   |                    |
| Investment real estate                               | 24     | 26,797,304        | 144,876,943        | 26,299,404        | 188,821,828        |
| Fixed assets-cost                                    | 25     | 18,657,685        | 100,870,906        | 19,532,783        | 140,239,522        |
| Less : Accumulated depreciations                     | 26     | 8,139,619         | 44,006,036         | 6,766,621         | 48,582,306         |
| Fixed assets-net value                               | 27     | 0                 | 0                  | 0                 | 0                  |
| less : Fixed assets depreciation reserves            | 28     | 8,139,619         | 44,006,036         | 6,766,621         | 48,582,306         |
| Fixed assets-net equity                              | 29     |                   |                    |                   |                    |
| Construction in progress                             | 30     |                   |                    |                   |                    |
| Project goods and material                           | 31     |                   |                    |                   |                    |
| Liquidation of fixed assets                          | 32     |                   |                    |                   |                    |
| Productive living assets                             | 33     |                   |                    |                   |                    |
| Oil and gas assets                                   | 34     |                   |                    |                   |                    |
| Intangible assets                                    | 35     | 1,659,994         | 8,974,590          | 1,619,006         | 11,623,979         |
| Including : right to use land                        | 36     | 1,659,994         | 8,974,590          | 1,619,006         | 11,623,979         |
| Development expenditures                             | 37     |                   |                    |                   |                    |
| Business reputation                                  | 38     |                   |                    |                   |                    |
| Cost-book value differentials                        | 39     |                   |                    |                   |                    |
| Long-term deferred and prepaid expenses              | 40     |                   |                    |                   |                    |
| Deferred income tax assets                           | 41     |                   |                    |                   |                    |
| Deferred taxes debit                                 | 42     |                   |                    |                   |                    |
| Other noncurrent assets                              | 43     |                   |                    |                   |                    |
| Including : specially approved reserving materials   | 44     |                   |                    |                   |                    |
| <b>Total noncurrent assets</b>                       | 45     | <b>9,799,613</b>  | <b>52,980,626</b>  | <b>8,385,627</b>  | <b>60,206,286</b>  |
| <b>TOTAL ASSETS</b>                                  | 46     | <b>19,582,727</b> | <b>105,872,053</b> | <b>21,743,696</b> | <b>156,113,215</b> |
| <b>CURRENT LIABILITIES :</b>                         | 47     |                   |                    |                   |                    |
| Short term loans                                     | 48     | 0                 | 0                  | 4,000,000         | 28,718,800         |
| Transaction financial liabilities                    | 49     | 0                 | 0                  | 0                 | 0                  |
| Warrants payable                                     | 50     | 0                 | 0                  | 0                 | 0                  |
| Notes payable  | 51     | 0                 | 0                  | 0                 | 0                  |
| Accounts payable                                     | 52     | 0                 | 0                  | 2,023,866         | 14,530,748         |
| Advances from customers                              | 53     | 896,537           | 4,847,039          | 0                 | 0                  |
| Employee pay payable                                 | 54     | 440,419           | 2,381,083          | 407,675           | 2,926,987          |
| Including : accrued wages                            | 55     | 436,189           | 2,358,211          | 404,700           | 2,905,625          |
| accrued welfare                                      | 56     | 4,231             | 22,872             | 2,975             | 21,362             |
| Including : staff and worker' bonus and welfare fund | 57     |                   |                    |                   |                    |
| Taxes and dues payable                               | 58     |                   |                    |                   |                    |
| Including : Taxes payable                            | 59     |                   |                    |                   |                    |
| Interest payable                                     | 60     |                   |                    |                   |                    |
| Dividends payable                                    | 61     |                   |                    |                   |                    |
| Other payables                                       | 62     | 102,012           | 551,515            | 164,057           | 1,177,877          |
| Due within one year of noncurrent liabilities        | 63     |                   |                    |                   |                    |
| Other current liabilities                            | 64     |                   |                    |                   |                    |
| <b>Total current liabilities</b>                     | 65     | <b>1,438,968</b>  | <b>7,779,637</b>   | <b>6,595,598</b>  | <b>47,354,412</b>  |

## BALANCE SHEET AS ON 31 DECEMBER 2008

| ITEMS  | LINENO | 31/Dec/07         | 31/Dec/07          | 31/Dec/08         | 31/Dec/08          |
|--|--------|-------------------|--------------------|-------------------|--------------------|
|  |        | CNY               | INR                | CNY               | INR                |
| <b>NONCURRENT LIABILITIES :</b>                                  | 66     |                   |                    |                   |                    |
| Long-term loans  | 67     |                   |                    |                   |                    |
| Bonds payable  | 68     |                   |                    |                   |                    |
| Long-term account payable  | 69     | 199,842           | 1,080,427          | 60,319            | 433,070            |
| Special payable  | 70     |                   |                    |                   |                    |
| Projected liabilities  | 71     |                   |                    |                   |                    |
| Deferred income tax liabilities                                  | 72     |                   |                    |                   |                    |
| Deferred taxes credit  | 73     |                   |                    |                   |                    |
| Other noncurrent liabilities                                     | 74     |                   |                    |                   |                    |
| Including : special reserve fund                                 | 75     |                   |                    |                   |                    |
| <b>Total non-current liabilities</b>                             | 76     | <b>199,842</b>    | <b>1,080,427</b>   | <b>60,319</b>     | <b>433,070</b>     |
| <b>Total liabilities</b>   | 77     | <b>1,638,810</b>  | <b>8,860,064</b>   | <b>6,655,916</b>  | <b>47,787,483</b>  |
| <b>OWNERS' EQUITY :</b>  | 78     |                   |                    |                   |                    |
| Practical capital collected (or share capital)                   | 79     | 19,013,598        | 102,795,116        | 19,013,598        | 136,511,930        |
| National capital   | 80     |                   |                    |                   |                    |
| Collective capital   | 81     |                   |                    |                   |                    |
| Legal person's capital   | 82     |                   |                    |                   |                    |
| Including : State-owned legal person's capital                   | 83     |                   |                    |                   |                    |
| Collective legal person's capital                                | 84     |                   |                    |                   |                    |
| Personal capital   | 85     |                   |                    |                   |                    |
| Foreign businessmen's capital                                    | 86     | 19,013,598        | 102,795,116        | 19,013,598        | 136,511,930        |
| Less : Investment returned                                       | 87     |                   |                    |                   |                    |
| Net paid in capital  | 88     | 19,013,598        | 102,795,116        | 19,013,598        | 136,511,930        |
| Capital reserves   | 89     | 42,667            | 230,673            | 42,667            | 306,333            |
| Less : treasury stock  | 90     |                   |                    |                   |                    |
| Surplus reserves   | 91     |                   |                    |                   |                    |
| Including : Legal surplus  | 92     |                   |                    |                   |                    |
| Free surplus reserves  | 93     |                   |                    |                   |                    |
| Reserve fund   | 94     |                   |                    |                   |                    |
| Enterprise expansion fund  | 95     |                   |                    |                   |                    |
| Profits capitalizad on return of investment                      | 96     |                   |                    |                   |                    |
| Unaffirmed investment loss                                       | 97     |                   |                    |                   |                    |
| Undistributed profit   | 98     | (1,112,348)       | (6,013,800)        | (3,968,485)       | (23,987,467)       |
| Including : cash dividends                                       | 99     |                   |                    |                   |                    |
| *Margin of Translation of Foreign Currency Financial Statements  | 100    |                   |                    |                   | (4,505,063)        |
| <b>Total equity attributable to equity holders of the Parent</b> | 101    | <b>17,943,916</b> | <b>97,011,989</b>  | <b>15,087,780</b> | <b>108,325,733</b> |
| *minority stockholder's interest                                 | 102    |                   |                    |                   |                    |
| <b>Total owners' equit</b>                                       | 103    | <b>17,943,916</b> | <b>97,011,989</b>  | <b>15,087,780</b> | <b>108,325,733</b> |
| Less : assets loss   | 104    |                   |                    |                   |                    |
| Total owners'equit (net value less loss on assets)               | 105    | <b>17,943,916</b> | <b>97,011,989</b>  | <b>15,087,780</b> | <b>108,325,733</b> |
| <b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>                      | 106    | <b>19,582,727</b> | <b>105,872,053</b> | <b>21,743,696</b> | <b>156,113,216</b> |

## INCOME AND PROFIT DISTRIBUTION STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

| ITEMS  | LINENO | 2008               | 2008                | 2007              | 2007              |
|--|--------|--------------------|---------------------|-------------------|-------------------|
|  |        | CNY                | INR                 | CNY               | INR               |
| <b>Gross operating income</b>  | 1      | <b>11,679,118</b>  | <b>73,496,688</b>   | <b>14,397,825</b> | <b>79,653,088</b> |
| Including : operating income   | 2      | 11,679,118         | 73,496,688          | 14,397,825        | 79,653,088        |
| Including : main business income   | 3      | 11,679,118         | 73,496,688          | 14,313,363        | 79,185,818        |
| Other business income  | 4      | 0                  | 0                   | 84,462            | 467,270           |
| <b>Gross operating cost</b>  | 5      | <b>14,583,658</b>  | <b>91,774,962</b>   | <b>13,608,872</b> | <b>75,288,360</b> |
| Including : operating cost   | 6      | 8,070,131          | 50,785,332          | 5,799,436         | 32,084,220        |
| Including : main business cost   | 7      | 8,070,131          | 50,785,332          | 5,799,436         | 32,084,220        |
| Other business expense   | 8      | 0                  | 0                   | 0                 | 0                 |
| Business tax and surcharges  | 9      | 0                  | 0                   | 0                 | 0                 |
| Selling expenses   | 10     | 5,160,435          | 32,474,617          | 4,664,663         | 25,806,318        |
| Administrative expenses  | 11     | 946,183            | 5,954,328           | 2,339,118         | 12,940,704        |
| Including : Business entertainment   | 12     | 0                  | 0                   | 0                 | 0                 |
| Research and development expense   | 13     | 0                  | 0                   | 0                 | 0                 |
| Financial Expenses   | 14     | 406,910            | 2,560,686           | 805,654           | 4,457,117         |
| Including : Interest exchange  | 15     | 18,589             | 116,983             | 109,984           | 608,467           |
| Interest income  | 16     | 17,113             | 107,692             | 3,510             | 19,416            |
| <b>Foreign exchange profit and loss</b>  | 17     | <b>405,434</b>     | <b>2,551,394</b>    | <b>629,050</b>    | <b>3,480,096</b>  |
| Asset impairment losses  | 18     | 0                  | 0                   | 0                 | 0                 |
| Other  | 19     | 0                  | 0                   | 0                 | 0                 |
| Add : Changes in fair value of the profit and loss   | 20     | 0                  | 0                   | 0                 | 0                 |
| Investment income Including : income from disposal of long term assets                                       | 21     | 0                  | 0                   | 0                 | 0                 |
| Including : for the investment benefits from the invested business and the united business and joint venture | 22     | 0                  | 0                   | 0                 | 0                 |
| <b>Operating profit</b>  | 23     | <b>(2,904,541)</b> | <b>(18,278,275)</b> | <b>788,954</b>    | <b>4,364,729</b>  |
| Add : Non-operating income   | 24     | 48,404             | 304,608             | 53,573            | 296,380           |
| Including : income from disposal of long term assets   | 25     |                    |                     |                   |                   |
| Income from non-monetary assets exchange   | 26     |                    |                     |                   |                   |
| Government grants (subsidy income)   | 27     |                    |                     |                   |                   |
| Income from debt restructuring   | 28     |                    |                     |                   |                   |
| Less : Non-operating expenses  | 29     | 0                  | 0                   | 20,990            | 116,122           |
| Including : loss on disposal of long-term assets   | 30     |                    |                     |                   |                   |
| Loss on non-monetary assets exchange   | 31     |                    |                     |                   |                   |
| Loss on debt restructuring   | 32     |                    |                     |                   |                   |
| <b>TOTAL PROFIT</b>  | 33     | <b>(2,856,137)</b> | <b>(17,973,667)</b> | <b>821,537</b>    | <b>4,544,987</b>  |
| Less : Income tax expense  | 34     |                    |                     |                   |                   |
| Add : unaffirmed investment loss   | 35     |                    |                     |                   |                   |
| <b>NET INCOME</b>  | 36     | <b>(2,856,137)</b> | <b>(17,973,667)</b> | <b>821,537</b>    | <b>4,544,987</b>  |
| Less : minority interest income  | 37     |                    |                     |                   |                   |
| <b>Net income attributable to equity holders of the Parent</b>   | 38     | <b>(2,856,137)</b> | <b>(17,973,667)</b> | <b>821,537</b>    | <b>4,544,987</b>  |

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

| ITEMS  | LINENO    | RMB               | INR               |
|--|-----------|-------------------|-------------------|
| <b>1. Cash Flow from Operating Activities</b>                                      | 1         |                   |                   |
| Cash from selling commodities or offering labor                                    | 2         | 12,873,306        | 81,011,713        |
| Refund of tax and fee received   | 3         | 1,179             | 7,420             |
| Other cash received related to operating activities                                | 4         | 30,000            | 188,790           |
| <b>Cash InflowSubtotal</b>   | <b>5</b>  | <b>12,904,485</b> | <b>81,207,923</b> |
| Cash paid for commodities or labor   | 6         | 6,397,004         | 40,256,347        |
| Cash paid to and for employees   | 7         | 3,052,225         | 19,207,653        |
| Taxes and fees paid  | 8         | 171,512           | 1,079,322         |
| Other cash paid related to operating activities                                    | 9         | 879,918           | 5,537,325         |
| <b>Cash OutflowSubtotal</b>  | <b>10</b> | <b>10,500,659</b> | <b>66,080,648</b> |
| <b>Cash flow generated from operating activitiesNet Amount</b>                     | <b>11</b> | <b>2,403,826</b>  | <b>15,127,275</b> |
| <b>2. Cash Flow from Investing Activities</b>                                      | 12        | 0                 | 0                 |
| Cash from investment withdrawal  | 13        | 0                 | 0                 |
| Cash from investment income  | 14        | 0                 | 0                 |
| Net cash from disposing fixed assets, intangible assets and other long-term ass    | 15        | 0                 | 0                 |
| Net cash inflows of disposal of subsidiaries and other business entities           | 16        | 0                 | 0                 |
| Other cash received related to investing activities                                | 17        | 0                 | 0                 |
| <b>Cash InflowSubtotal</b>   | <b>18</b> | <b>0</b>          | <b>0</b>          |
| Cash paid for buying fixed assets, intangible assets and other longterm investment | 19        | 121,934           | 767,329           |
| Cash paid for investment   | 20        | 0                 | 0                 |
| Net cash outflows of procurement of subsidiaries and other business units          | 21        | 0                 | 0                 |
| Other cash paid related to investing activities                                    | 22        | 0                 | 0                 |
| <b>Cash OutflowSubtotal</b>  | <b>23</b> | <b>121,934</b>    | <b>767,329</b>    |
| <b>Cash flow generated from investing activitiesNet Amount</b>                     | <b>24</b> | <b>-121,934</b>   | <b>-767,329</b>   |
| <b>3. Cash Flow from Financing Activities</b>                                      | 25        |                   |                   |
| Cash received from accepting investment  | 26        |                   |                   |
| Including : cash inflows from minority investment in subsidiaries                  | 27        |                   |                   |
| Borrowings   | 28        | 4,000,000         | 25,172,000        |
| Other cash received related to financing activities                                | 29        |                   |                   |
| <b>Cash InflowSubtotal</b>   | <b>30</b> | <b>4,000,000</b>  | <b>25,172,000</b> |
| Cash paid for debt   | 31        |                   |                   |
| Cash paid for dividend , profit or interest  | 32        | 18,589            | 116,983           |
| Including : dividends and earnings paid to minorities by subsidiaries              | 33        |                   |                   |
| Other cash paid related to financing activities                                    | 34        |                   |                   |
| <b>Cash OutflowSubtotal</b>  | <b>35</b> | <b>18,589</b>     | <b>116,983</b>    |
| <b>Cash flow from financing activitiesNet Amount</b>                               | <b>36</b> | <b>3,981,411</b>  | <b>25,055,017</b> |
| <b>4. Foreign Currency Translation Gains (Losses)</b>                              | 37        | 0                 | 5,831,362         |
| <b>5. Net Increase Of Cash and Cash Equivalents</b>                                | 38        | <b>6,263,302</b>  | <b>45,246,324</b> |
| <b>Add : cash and cash equivalents beginning bal.</b>                              | 39        | <b>313,174</b>    | <b>1,970,807</b>  |
| <b>6.cash and cash equivalents ending bal.</b>                                     | 40        | <b>6,576,477</b>  | <b>47,217,131</b> |

**NOTES TO FINANCIAL STATEMENTS**

**1. Brief information on the Company**

Technico Horticultural (Kunming) Co., Ltd. (the “company”) was established as a wholly foreign-owned enterprise invested by Technico China Pty Ltd., under the “laws of the People’s Republic of China (the “PRC”) on Enterprises Operated Exclusively with Foreign Capital” and through the approval by the Foreign Economic and Trade Department of Yunnan province in the certification Dian zi (1997) No.0049. The Company of the registered capital USD2,300,000.00 was registered, with the business license number of Qi Du Zong zi No.000716, on 8 December 1997. The tenure of the Company is 50 years and may be extended upon application by the board of directors and approval of the relevant government authorities. The principal activities of the Company are the development, production and supply of microtuber potato.

**2. Significant accounting policies and accounting estimates**

- (1) Accounting regulations  
The Company implements “The Accounting Standards for Enterprises” and “The Accounting Regulations of Enterprises” and the supplementary stipulate.
- (2) Fiscal year  
The fiscal year for the Company is from 1 January to 31 December of each calendar year.
- (3) Accounting currency  
The Company’s financial records are maintained and the financial statements are stated in Renminbi (“RMB”).
- (4) Accounting basis and principle  
The accounting basis of The Company is accrual principle, and the accounting principle is historical cost principle.
- (5) Foreign currency transactions  
All foreign currency transactions have been translated into RMB at the market rates of exchange prevailing on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the market rates of exchange ruling at that date. The resulting exchange gains or losses are capitalized if they have relation to acquiring fixed assets before the fixed assets intended-use have been commenced; or are accounted as long-term prepaid expense ! in the preparative duration, or are dealt with in the profit and loss account in the operating duration, if they have not relation to acquiring fixed assets.
- (6) Cash equivalents  
Cash equivalents are the short-term investments, which are held by the Company at the short-term (generally within 3 months from the purchasing date to the date due), are easy in currency and conversion to known-account cashes, are of little value fluctuations.
- (7) Allowances for uncollectible accounts  
The Company uses the allowance method in which the allowances for uncollectible accounts for the receivable items (including the accounts receivable and other receivable) are recognized in the aging receivable account method and are dealt with in the profit and loss account at the balance sheet. The aging receivable account method is made as follows:
  - a. Within 1 year, at 0.5 percent on the amount of the part;
  - b. 1-2 year, at 10 percent on the amount of the part;
  - c. 2-3 year, at 30 percent on the amount of the part.
 If any receivable is evidently different from the others, the specific identification method is made for the receivable item.
- (8) Inventories  
Inventories, which are recorded at actual cost, include finished goods, work-in-progress and raw material.  
For the unrecoverable inventory cost due to the damage, partly or wholly obsolescence, or market price lower than the cost, the provision for decline in value of inventories is determined according to the difference of the actual cost lower than net realizable value on an item-by-item basis, at the end of the period.
- (9) Fixed assets and depreciation  
Fixed assets are recorded based on the actual cost. At the inception of a lease, the fixed assets by a lessee under a finance lease are recorded at an amount equal to the lower of the carrying amount of the leased asset originally recorded in the books of the lessor and the present value of the minimum lease payments. (If the proportion of the recorded amount of the leased assets to the total amount of assets is lower than 30 percent, the leased assets are recorded at an amount equal to the total minimum lease payments.)  
The standard about fixed asset: House and building, machinery and equipment, Motor vehicle and so on of the useful life more than one year, and non-principle operating equipment of the unit value over 2000 yuan and the useful life more than two years

**NOTES TO FINANCIAL STATEMENTS (Contd..)**

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life after deducting the estimated residual value. The categories, useful life and residual value, annual depreciation rate are as follows:

| Category                   | Estimated useful life | Annual depreciation rate | Residual value |
|----------------------------|-----------------------|--------------------------|----------------|
| House and building         | 20years               | 4.50%                    | 10.00%         |
| Production equipment       | 10years               | 9.00%                    | 10.00%         |
| Motor vehicle              | 5years                | 18.00%                   | 10.00%         |
| Office equipment and other | 5years                | 18.00%                   | 10.00%         |

Provision for impairment: At the end of each period, The Company examines its fixed assets and if market value of the fixed asset has declined continually, become obsolete in technology, been not in use in the long term, or been damage, and the recoverable amount of the fixed asset is less than its carrying amount, the provision for impairment is determined according to the difference of the recoverable amount of the fixed asset lower than its carrying amount on an item-by-item basis.

**(10) Intangible assets**

An intangible asset, which is acquired separately, is recorded based on the actual purchase price paid.

The cost of an intangible asset is amortized evenly over its expected useful life starting in the month in which it is obtained.

If the expected useful life exceeds the beneficial period stipulated in the relevant contract or the effective period stipulated by law, the amortization period of an intangible asset is determined in accordance with the following rules:

- a. If the relevant contract stipulates the beneficial period but the law does not stipulate the effective period, the amortization period is not longer than the beneficial stipulated by the relevant contract;
- b. If the relevant contract does not stipulate the beneficial period but the law stipulates the effective period, the amortization period is not longer than the effective period stipulated by law;
- c. If the relevant contract stipulates the beneficial period but the law also stipulate the effective period, the amortization period is not longer than the shorter of the beneficial period and the effective period.

If the relevant contract does not stipulate the beneficial period and the law does not stipulate the effective period, the amortization period does not exceed 10 years.

If an intangible asset is no longer expected to be able to generate any economic benefits that flow to the enterprise, the carrying amount of the intangible asset is written off and is recognized as gain or loss the current period.

The Company reviews the carrying amount of the intangible asset at the end of each period. The difference of the expected receivable amount lower than the carrying amount of the intangible asset is recognized as provision for impairment on an item-by-item basis.

**(11) Long-term prepaid expense**

Long-term prepaid expenses are recorded based on the actual payments and amortized on the straight-line basis in the beneficial period.

The expenses (except for acquiring fixed assets), which occur in the preparative duration, are recorded as long-term expense, and are amortized in the month starting the operating

**(12) Principle for recognition of revenue**

**a. Revenue from the sale of goods**

The revenue is recognized when all the following conditions have been satisfied: the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; the enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; it is probable that the economic benefits will flow to the Company; the relevant amount of revenue and costs can be measured reliably.

**b. Revenue from rendering of services**

When the provision of services is started and completed within the same accounting year, revenue is recognized at the time of completion of the services, and receipt of money or holding the qualification of acquiring money;

When the provision of services is started and completed in different accounting year, the total income and the completion degree involving the service contract can be estimated reliably, it is probable that the economic benefits will flow to the Company, the outcome of a transaction involving the rendering of services can be estimated reliably, the service revenue is recognized at the balance sheet date by the use of the percentage of completion method.

**Notes to significant items in the financial statements (Contd..)**

The revenue referred to above is recognized when all the following conditions have been satisfied:

- a. It is probable that the economic benefits will flow to the Company;
- b. The amount of the revenue can be measured reliably.

(13) Corporation income tax

Corporation income tax is accounted on the tax payable basis.

**3. Tax**

VAT: According to the relevant tax laws in the PRC, the Company is exempted from VAT for the sales of the agricultural produce harvested by the Company.

Corporate income tax: at a rate of 25% on its taxable income. However, according to the relevant tax laws in the PRC, the Company is exempted from corporate income tax for its first two profit making years (after deducting losses incurred in previous years) commencing from the first profitable year, and is entitled to a 50% tax exemption for the succeeding three years.

**4. Notes to significant items in the financial statements**

(1) Cash

| Items        | 2007-12-31        |  | 2008-12-31          |  |
|--------------|-------------------|--|---------------------|--|
|              | RMB               |  | RMB                 |  |
| Cash on hand | 24,420.97         |  | 8,658.71            |  |
| Cash in bank | 288,753.50        |  | 6,567,818.21        |  |
| Total        | <u>313,174.47</u> |  | <u>6,576,476.92</u> |  |

(2) Account receivable

| The age of accounts receivable | 2007-12-31          |                |                         | 2008-12-31          |                |                         |
|--------------------------------|---------------------|----------------|-------------------------|---------------------|----------------|-------------------------|
|                                | RMB                 | Percentage     | Provision for bad debts | RMB                 | Percentage     | Provision for bad debts |
| Within 1 year                  | 4,036,943.98        | 89.06%         | 513,159.04              | 2,443,368.54        | 100.00%        | 12,216.84               |
| 1-2year                        | 495,973.92          | 10.94%         |                         |                     |                |                         |
| Total                          | <u>4,532,917.90</u> | <u>100.00%</u> | <u>513,159.04</u>       | <u>2,443,368.54</u> | <u>100.00%</u> | <u>12,216.84</u>        |

(3) Other receivables

| Length after occurrence | 2007-12-31        |                |                         | 2008-12-31        |                |                         |
|-------------------------|-------------------|----------------|-------------------------|-------------------|----------------|-------------------------|
|                         | RMB               | Percentage     | Provision for bad debts | RMB               | Percentage     | Provision for bad debts |
| Within 1 year           | 245,077.34        | 100.00%        |                         | 115,762.40        | 100.00%        |                         |
| 1-2year                 |                   |                |                         |                   |                |                         |
| 2-3year                 |                   |                |                         |                   |                |                         |
| More than 3 years       |                   |                |                         |                   |                |                         |
| Total                   | <u>245,077.34</u> | <u>100.00%</u> |                         | <u>115,762.40</u> | <u>100.00%</u> |                         |

(4) Advances to suppliers

| Length After occurrence | 2007-12-31       |                | 2008-12-31      |             |
|-------------------------|------------------|----------------|-----------------|-------------|
|                         | RMB              | Percentage     | RMB             | Percentage  |
| Within 1 year           | 70,000.00        | 100.00%        | 6,633.13        | 100%        |
| Total                   | <u>70,000.00</u> | <u>100.00%</u> | <u>6,633.13</u> | <u>100%</u> |

**Notes to significant items in the financial statements (Contd..)**

(5) Inventories and provision for loss on realization of inventory

| Items            | 2007-12-31          |  | 2008-12-31          |  |
|------------------|---------------------|--|---------------------|--|
|                  | RMB                 | Provision for loss on realization of inventory | RMB                 | Provision for loss on realization of inventory |
| Finished goods   | 1,155,675.21        |  | 326,291.80          |  |
| Work-in-progress | 3,958,198.31        |  | 3,881,481.33        |  |
| Total            | <u>5,113,873.52</u> |  | <u>4,207,773.13</u> |  |

(6) Fixed assets

| Items                              | 2007-12-31           | Add                 | Less              | 2008-12-31           |
|------------------------------------|----------------------|---------------------|-------------------|----------------------|
| Cost                               |                      |                     |                   |                      |
| Total Capex                        | <u>26,797,303.67</u> | <u>121,933.74</u>   | <u>619,833.75</u> | <u>26,299,403.66</u> |
| Accumulated depreciation           |                      |                     |                   |                      |
| Total Depreciation                 | <u>18,657,684.68</u> | <u>1,432,768.69</u> | <u>557,670.38</u> | <u>19,532,782.99</u> |
| Fixed assets depreciation reserves |                      |                     |                   |                      |
| Net book value                     | <u>8,139,618.99</u>  |                     |                   | <u>6,766,620.67</u>  |

(7) Intangible assets

| Items          | 2007-12-31<br>RMB | Add<br>RMB | Less<br>RMB | 2008-12-31<br>RMB |
|----------------|-------------------|------------|-------------|-------------------|
| Land-use-right | 2,049,375.00      |            |             | 2,049,375.00      |
| Amortization   | 389,381.25        | 40,987.50  |             | 430,368.75        |
| Total          | 1,659,993.75      |            |             | 1,619,006.25      |

The amortization term is 50 years, and there have been 39 years and 6 months left by 31 December 2008.

Ended 31 December 2008, the above asset was pledged to Guangdong Development Bank for the short-term bank loan under the amount of RMB 4,000,000.00 yuan.

(8) Short-term loan

| Items              | 2007-12-31<br>RMB | 2008-12-31<br>RMB   |
|--------------------|-------------------|---------------------|
| Bank loans secured |                   | 4,000,000.00        |
| Total              |                   | <u>4,000,000.00</u> |

The short-term bank loans were secured by the land-use-right and fixed-assets.

(9) Account payable

| The age of accounts receivable | 2007-12-31<br>RMB | 2008-12-31<br>RMB   |
|--------------------------------|-------------------|---------------------|
| Within 1 year                  |                   | 2,023,865.69        |
| Total                          |                   | <u>2,023,865.69</u> |

1,994,773.69 is marketing fee owed to Technico Pty Ltd.

(10) Long-term account payable

| 2007-12-31<br>RMB | 2008-12-31<br>RMB |
|-------------------|-------------------|
| <u>199,842.22</u> | <u>60,318.74</u>  |

The amount due to investor is unsecured, interest free and has no fixed term of repayment.

**Notes to significant items in the financial statements (Contd..)**

(11) Paid-in capital

| Investors      | 2007-12-31           |                | Add | Less | 2008-12-31           |                |
|----------------|----------------------|----------------|-----|------|----------------------|----------------|
|                | RMB                  | Proportion     |     |      | RMB                  | Proportion     |
| Technico       | 19,013,598.02        | 100.00%        |     |      | 19,013,598.02        | 100.00%        |
| China Pty Ltd. |                      |                |     |      |                      |                |
| <b>Total</b>   | <u>19,013,598.02</u> | <u>100.00%</u> |     |      | <u>19,013,598.02</u> | <u>100.00%</u> |

(12) Primary operating profit

| Operating revenue | Operating cost |
|-------------------|----------------|
| 11,679,117.69     | 8,070,130.59   |

(13) Finance expense

| Items                 | From 2008-1-1 to 2008-12-31 |
|-----------------------|-----------------------------|
| Interest expense      | 18,589.45                   |
| Less: Interest income | 17,112.96                   |
| Foreign exchange loss | 405,433.67                  |
| other                 |                             |
| <b>Total</b>          | <u>406,910.16</u>           |

**1. Contingencies**

Up to 31 December 2008, there are no material contingencies for the Company.

**2. Promised events**

Up to 31 December 2008, there are no material promised events for the Company.

**3. Non-adjusting events subsequent to the balance sheet date**

Not material non-adjusting events subsequent to the balance sheet date for the Company.

**4. Other material events stated**

Up to 31 December 2008, there are no other material matters specially stated for the Company.