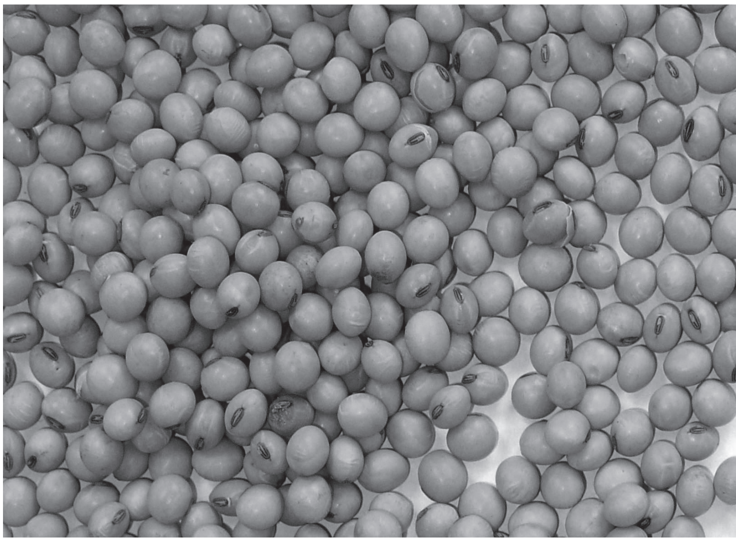
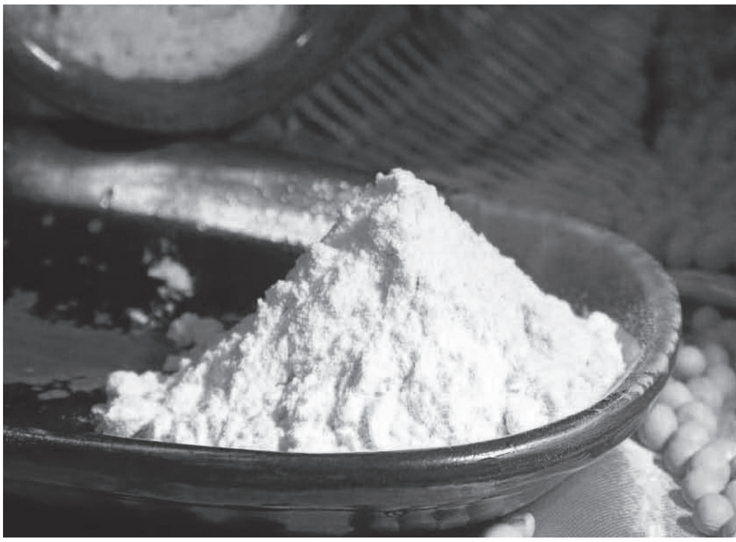
Financial Statements and Other Information

Annual Report 2006

Pine Agritech Limited





Contents

Statement of Corporate Governance

Pine Agritech Limited (the "Company") is committed to ensuring and maintaining a high standard of corporate governance within the Group. Good corporate governance establishes and maintains a legal and ethical environment, which helps to preserve and enhance the interests of all shareholders.

With the enhancements to the Code of Corporate Governance ("Code") introduced by the Singapore Council on Corporate Disclosure and Governance in 2005, the Company has, in line with its commitment to maintaining a high standard of corporate governance, implemented a number of recommendations made in the revised Code ("2005 Code").

This report describes the corporate governance framework and practices of the Company with specific reference made to each of the principles of the revised 2005 Code.

(A) BOARD MATTERS

Board's Conduct of its Affairs

Principle 1 : Every company should be headed by an effective Board to lead and control the company.

Role of the Board of Directors (the "Board")

The Board assumes responsibility for stewardship of the Company and its subsidiaries (the "Group") and is primarily responsible for the protection and enhancement of long-term value and returns for the shareholders. It supervises the management of the business and affairs of the Group, provides corporate direction, monitors managerial performance and reviews financial results of the Group. In addition, the Board is directly responsible for decision making in respect of the following matters:

a. appointment of directors and key managerial personnel;
b. announcements including approval and release of financial results and annual reports;
c. business strategy including significant acquisition and disposal of subsidiaries or assets and liabilities;
d. operating budgets, significant investments and capital expenditures; and
e. corporate policies in keeping with good corporate governance and business practice.

To assist in the execution of its responsibilities, the Board has established a number of Board committees which include an Audit Committee ("AC"), a Nominating Committee ("NC") and a Remuneration Committee ("RC"), each of which functions within clearly defined terms of reference and operating procedures which are reviewed on a regular basis.

Board Meetings and Meetings of Board Committees

The Board meets on a quarterly basis and whenever necessary for the discharge of their duties. Dates of the Board meetings are normally set by the directors well in advance.

The Board's approval is required for matters such as corporate restructuring, mergers and acquisitions, major investments and divestments, material acquisitions and disposal of assets, major corporate policies on key areas of operations, acceptances of bank facilities, annual budget, the release of the Group's quarterly and full year's financial results and interested person transactions of a material nature.

Statement of Corporate Governance

The number of meetings held by the Board and Board committees and attendance thereat during the past financial year are as follows:

DIRECTORS	BOARD		AC		RC		NC	
	No. of meetings	Attended	No. of meetings	Attended	No. of meetings	Attended	No. of meetings	Attended
Ming Kam Sing	4	4	4	4	1	–[1]	–	–
Li Zhuping	4	4	–	–	1	1	1	1
Zhou Yan'An[2]	4	–	–	–	–	–	–	–
Chan Wai Meng	4	4	4	4	1	1	1	1
Ong Tiong Seng	4	3	4	3	1	1	1	1

Training

The Board will constantly examine its size and, with a view to determining the impact of its number upon effectiveness, decide on what it considers an appropriate size for itself. The composition of the Board will be reviewed on an annual basis by the NC to ensure that the Board has the appropriate mix of expertise and experience. The NC and the Board will then nominate a suitable candidate to be appointed to the Board by the Company in general meeting.

All directors have many years of corporate experience and are familiar with their duties and responsibilities as directors. In addition, the Company has in place a program whereby newly appointed directors will be given briefings and orientation training by the Chief Executive Officer and top management of the Company on the business activities of the Group and its strategic directions, as well as their duties and responsibilities as directors. The directors are also briefed by professionals either during Board meetings or at separate meetings on regulatory changes which have an important bearing on the Company and the directors' obligations to the Company.

Board Composition and Balance

Principle 2 : There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board consists of five (5) directors of whom two (2) are independent. The list of directors is as follows:

Executive Directors

Li Zhuping (Chief Executive Officer)
Zhou Yan'An (Appointed on 13 December 2006) (Executive Director)

Non-Executive Directors

Ming Kam Sing (non-independent)
Chan Wai Meng (independent)
Ong Tiong Seng (independent)

The composition of the Board is reviewed by the NC which is of the view that the current Board size of five (5) directors of which two (2) are independent directors, is appropriate and effective, taking into account the nature and scope of the Company's operations.

1 Mr Ming Kam Sing was appointed in place of Mr Li Zhuping in accordance with Guideline 7.1 of the Code.
2 Mr Zhou Yan'An was appointed as an Executive Director on 13 December 2006.

Statement of Corporate Governance

The Board comprises persons who as a group provide core competencies necessary to meet the Company's requirements. The directors' objective judgement on corporate affairs and collective experience and knowledge are invaluable to the Group.

Independence of directors

The NC reviews the independence of each director on an annual basis based on the Code's definition of what constitutes an independent director. The NC is of the view that the two (2) independent directors (who represent more than one-third of the Board) are independent and no individual or small group of individuals dominates the Board's decision-making process.

Chairman and Chief Executive Officer

Principle 3 : There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

Different individuals assume the roles of the Chairman of the Board and the Chief Executive Officer ("CEO"). The Chairman of the Board is Mr Ming Kam Sing. As the Chairman, Mr Ming is responsible for, among others, the exercise of control over quantity, quality and timeliness of the flow of information between the management of the Company and the Board. He also schedules Board meetings, oversees the preparation of the agenda for Board meetings and assists in ensuring compliance with the Group's guidelines on corporate governance.

He is assisted by the CEO, Mr Li Zhuping. Mr Li, together with the management comprising each subsidiary's general managers and key senior managers, are responsible for the day-to-day management of the Group.

The separation of the roles of the Chairman and CEO ensures a balance of power and authority such that no one individual represents a considerable concentration of power.

Board Membership

Principle 4 : There should be a formal and transparent process for the appointment of new directors to the Board. As a principle of good corporate governance, all directors should be required to submit themselves for re-nomination and re-election at regular intervals.

The NC was established on 23 March 2005. It is chaired by Mr Ong Tiong Seng (an independent director) with the following directors as members:

Li Zhuping	
Chan Wai Meng	(independent)

The primary functions of the NC are as follows:

- to identify candidates and review all nominations for the appointment or reappointment of members of the Board, the CEO of the Group, and to determine the selection criteria therefor;
- to ensure that all Board appointees undergo an appropriate induction programme;
- to regularly review the Board structure, size and composition and make recommendations to the Board with regard to any adjustments that are deemed necessary;
- to identify gaps in the mix of skills, experience and other qualities required in an effective Board and to nominate or recommend suitable candidates to fill these gaps;
- to decide whether a director is able to and has been adequately carrying out his duties as director of the Company, particularly where the director has multiple board representations;
- to review the independence of each director annually;

Statement of Corporate Governance

- to decide how the Board's performance may be evaluated and propose objective performance criteria for the Board's approval; and
- to assess the effectiveness of the Board as a whole.

For the year under review, the NC held one (1) meeting.

The directors will submit themselves for re-nomination and re-election at regular intervals of at least once every three (3) years. Under the Company's existing Bye-Laws, one-third of the directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. In reviewing and recommending to the Board the re-nomination and re-election of existing directors, the NC takes into consideration the directors' contribution and performance at Board meetings, including attendance, preparedness, participation and candour.

The NC is satisfied that sufficient time and attention are being given by the directors to the affairs of the Company and Group, notwithstanding that some of the directors have multiple board representations.

In its search and nomination process for new directors, the NC has, at its disposal, search companies, personal contacts and recommendations, to cast its net as wide as possible for the right candidates.

Board Performance

Principle 5 : There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

The NC reviews the criteria for evaluating the Board's performance. Based on the recommendations of the NC, the Board has established processes for evaluating the effectiveness of the Board as a whole.

The performance criteria for the Board evaluation includes an evaluation of the size and composition of the Board, the Board's access to information, accountability, Board processes, Board performance in relation to discharging its principal responsibilities, communication with management and standards of conduct of the directors.

In the course of the year, the NC has conducted the assessment by preparing a questionnaire to be completed by each director, of which were then collated and the findings were analyzed and discussed with a view to implementing certain recommendations to further enhance the effectiveness of the Board.

Access to Infomation

Principle 6 : In order to fulfil their responsibilities, board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.

To assist the Board in fulfilling its responsibilities, the management provides the Board with a management report containing complete, adequate and timely information prior to the Board meetings. All directors have separate and independent access to the management, including the Company Secretary at all times. The Company Secretary attends all Board meetings and ensures that Board procedures and all other rules and regulations applicable to the Company are complied with.

The directors and the chairmen of the respective committees, whether as a group or individually are able to seek independent professional advice as and when necessary in furtherance of their duties at the Company's expense. The appointment of such professional advisor is subject to approval by the Board.

Statement of Corporate Governance

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7 : There should be a formal and transparent procedure for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The RC was established on 23 March 2005. The RC comprises of entirely non-execuitve directors. It is chaired by Mr Ong Tiong Seng (an independent non-executive director), with Mr Ming Kam Sing and Mr Chan Wai Meng (an independent non-executive director) as members.

The members of the RC have many years of corporate experience and are knowledgeable in the field of executive compensation. In addition, the RC has access to expert professional advice on remuneration matters as and when necessary.

The responsibilities of the RC include the following:

- to review directors' fees to ensure that they are at sufficiently competitive levels;
- to administer the Company's Employee Share Option Scheme ("ESOS") for directors, senior management and executives;
- to review and advise the Board on the terms of appointment and remuneration of its members, CEO, key executive officers, senior management of the Group and all managerial staff who are related to any of the directors or the CEO;
- to review the terms of the employment arrangements with management so as to develop consistent group wide employment practices subject to regional differences;
- to recommend to the Board in consultation with senior management and the Chairman of the Board, any long term incentive scheme.

The RC reviews all aspects of remuneration including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits-in-kind.

No director is involved in determining his own remuneration.

Level and Mix of Remuneration

Principle 8 : The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more for this purpose. A proportion of the remuneration, especially that of executive directors, should be linked to performance.

In setting remuneration packages, the RC takes into consideration the pay and employment conditions within the industry and in comparable companies. As part of its review, the RC ensures that the performance related elements of remuneration form a significant part of the total remuneration package of executive directors and is designed to align the directors' interests with those of shareholders and link rewards to corporate and individual performance. The RC also reviews all matters concerning the remuneration of non-executive directors to ensure that the remuneration commensurate with the contribution and responsibilities of the directors. The Company submits the quantum of directors' fees of each year to the shareholders for approval at each Annual General Meeting.

Non-executive directors have no service contracts. The executive directors have service contracts. Mr Li's and Mr Zhou's services contracts were entered on 31 March 2005 and 13 February 2007 respectively for a term of two (2) years.

Statement of Corporate Governance

Long term incentive scheme

The ESOS was implemented in 2005 as a long-term incentive plan for more senior level staff based on individual performance. It is administered by the RC. Details of the ESOS are set out in the Directors' Report on pages 11 to 13.

Disclosure on Remuneration

Principle 9 : Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the company's annual report.

A breakdown of the remuneration of the directors and the top 7 key executives (who are not also directors) for the financial year ended 31 December 2006 are set out below:

Remuneration of the directors

Remuneration band and names of directors	Salary (1)	Bonus (1)	Directors' fees (2)
S$500,000 and above			
Li Zhuping	6%	94%	–
Below S$250,000			
Ming Kam Sing	–	–	100%
Zhou Yan'An	100%	–	–
Chan Wai Meng	–	–	100%
Ong Tiong Seng	–	–	100%
Hu Fabao (Resigned on 13 December 2006)	100%	–	–

Details on share options granted to the directors are set out in the Directors' Report on page 12.

Remuneration of top 7 Key Executives (who are not directors)

Remuneration band and names of key executives (who are not directors)-	Below S$250,000
Ho Hin Yip	X
Zhang Qingping	X
Meng Fanqi	X
Zhang Jichuan	X
Bao Shouhui	X
Zhang Youyun	X
Li Ying	X

(1) These are under the service contract.

(2) The directors' fees are subject to the approval of the shareholders at the Annual General Meeting.

There are no employees of the Group who are immediate family members of a director or the CEO and whose remuneration exceeds S$150,000 during the financial year ended 31 December 2006.

Statement of Corporate Governance

(C) ACCOUNTABILITY AND AUDIT

Accountability

Principle 10 : The Board is accountable to the shareholders while the Management is accountable to the Board.

The Board endeavors to ensure that the annual audited financial statements and quarterly announcements of the Group's results present a balanced and understandable assessment of the Group's position and prospects. The Board embraces openness and transparency in the conduct of the Company's affairs, whilst preserving the commercial interests of the Company. Financial and other price sensitive information are disseminated to shareholders through announcements via SGXNET.

Audit Committee

Principle 11 : The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.

The AC comprises all non-executive directors, namely, Mr Chan Wai Meng (an independent director who also acts as the Chairman), Mr Ming Kam Seng and Mr Ong Tiong Seng (an independent director).

All members of the AC have many years of experience in senior management positions in both financial and industrial sectors. The Board is of the view that the AC members, having accounting and related financial management expertise or experience, are appropriately qualified to discharge their responsibilities.

During the past financial year, the AC held four (4) meetings with the management and the external auditors of the Company to discuss and review the following matters:

- the audit plans of the external auditors of the Company, and their reports arising from the audit;
- the adequacy of the assistance and cooperation given by the Company's management to the external auditors;
- the financial statements of the Company and the consolidated financial statements of the Group;
- the quarterly and annual announcement of the results of the Group before submission to the Board for approval;
- the adequacy of the Group's internal controls in respect of the management, business and service systems and practices;
- legal and regulatory matters that may have material impact on the financial statements, compliance policies and programmes and any reports received from regulators;
- the cost effectiveness, independence and objectivity of the external auditors;
- the approval of compensation to the external auditors;
- the nature and extent of non-audit services provided by the external auditors;
- the recommendation to the Board for the appointment or re-appointment of the external auditors of the Company;
- to report actions and minutes of the AC to the Board with such recommendations as the AC considers appropriate; and
- interested person transactions to ensure that the current procedures for monitoring of interested party transactions have been complied with.

Statement of Corporate Governance

In performing its functions, the AC :

- met once with the external auditors, without the presence of the Company's management and reviewed the overall scope of the external audit and the assistance given by the management to the auditors;
- has explicit authority to investigate any matter relating to the Group's accounting, auditing, internal controls and financial practices brought to its attention with full access to records, resources and personnel to enable it to discharge its function properly; and
- has full access to and cooperation of the management and full discretion to invite any director or executive officer to attend its meetings.

The external and internal auditors have unrestricted access to the AC.

The AC has undertaken a review of all the non-audit services provided by the external auditors during the year under review and is satisfied that such services would not, in the AC's opinion, affect the independence of the external auditors. The AC recommends to the Board the re-appointment of Grant Thornton as the external auditors of the Company at the forthcoming Annual General Meeting.

The Company will be putting in place whistle-blower policies and arrangements by which staff may, in confidence, raise concerns about possible corporate improprieties in matters of financial reporting or other matters. To ensure independent investigation of such matters and for appropriate follow up action, all whistle-blower reports will be sent to the Chairman of the Audit Committee and the Chairman of the Board will be informed immediately of all whistle-blower reports received.

Internal Controls

Principle 12 : The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

Internal Controls

The Board ensures that the management maintains a sound system of internal controls and effective risk management policies to safeguard the shareholders' investment and the Company's assets.

The Company's internal and external auditors conduct an annual review of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls, and risk management. Any material non-compliance or failures in internal controls and recommendations for improvements are reported to the AC. The AC also reviews the effectiveness of the actions taken by the management on the recommendations made by the internal and external auditors in this respect.

The AC, with the assistance of the internal and external auditors, have reviewed, and the Board is satisfied that, in the absence of any evidence to the contrary, the system of internal controls maintained by the Group's management throughout the financial year ended 31 December 2006 up to the date of this report is adequate to meet the needs of the Group in its current business environment.

The system of internal control provides reasonable, but not absolute, assurance that the Group will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives.

However, the Board notes that no system of internal control could provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities.

Statement of Corporate Governance

Apart from the in-house internal auditors, Horwath First Trust ("HFT"), a professional accounting firm is also appointed to carry out the internal audit functions. The Group's internal auditors and HFT will also carry out major internal control checks and compliance tests as instructed by the AC. The AC will review the external and internal auditors' reports and ensure that there are adequate internal controls in the Group.

Risks arising from the Group's financial operations are separately discussed in Note 23 to the Financial Statements on page 37.

Internal Audit

Principle 13 : The company should establish an internal audit function that is independent of the activities it audits.

The Group's internal audit function has been outsourced to HFT, a professional accounting firm. HFT reports to the AC on audit matters and reports administratively to the CEO. The AC also reviews and approves the annual internal audit plans and resources to ensure that HFT has the necessary resources to adequately perform its functions.

(D) COMMUNICATION WITH SHAREHOLDERS

Communication with Shareholders

Principle 14 : Companies should engage in regular, effective and fair communication with shareholders.

Principle 15 : Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Company believes that a high standard of disclosure is key to raising the level of corporate governance. Accordingly, the Company holds analyst briefing of its quarterly results. Quarterly results are published through the SGXNET, news releases and the Company's website. All information of the Company's new initiatives are first disseminated via SGXNET followed by a news release, which is also available on the website.

The Company does not practise selective disclosure. Price sensitive information is publicly released and results and annual reports are announced or issued within the mandatory period and are available on the Company's website. All shareholders of the Company receive the annual report and notice of Annual General Meeting.

The Company welcomes the views of the shareholders on matters concerning the Company and encourages shareholders' participation at Annual General Meetings. The chairmen of the AC, NC and RC, and the external auditors of the Company are normally present at the general meetings to answer questions from the shareholders.

The Company is not implementing absentia voting methods such as voting via mail, e-mail or fax until security, integrity and other pertinent issues are satisfactorily resolved.

Each item of special business included in the notice of the meeting is accompanied, where appropriate, by an explanation for the proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting.

The chairmen of the AC, NC and RC, and the external auditors of the Company are normally present at the general meetings to answer questions from the shareholders.

The Company Secretary prepares minutes of shareholders' meetings, which incorporates substantial comments or queries from shareholders and responses from the board and management. These minutes are available to shareholders upon request.

Statement of Corporate Governance

(E) DEALINGS IN SECURITIES

The Company has issued a guideline on share dealings to all directors and employees of the Group which sets out the code of conduct on transactions in the Company's shares by these persons, the implications of insider trading and general guidance on the prohibition against such dealings.

In line with Listing Rule 1207(18) issued by the SGX-ST, the Company issues a notification to all officers of the Company informing them that they should not deal in the securities of the Company during the periods commencing one month before the announcement of the Company's full-year results and two weeks before the Company's quarterly or half-year results until after the announcement. They are also discouraged from dealing in the Company's shares on short term considerations.

Compliance with Existing Best Practices Guide of the SGX-ST

The Board confirms that for the financial year ended 31 December 2006, the Company has complied with Listing Rule 1207(18).

(F) INTERESTED PERSON TRANSACTION

As a listed company on the SGX-ST, the Company is required to comply with Chapter 9 of the Listing Manual of the SGX-ST on interested person transactions. To ensure compliance with Chapter 9, the Company has taken the following steps:

- The Board meets to review if the Company will be entering into any interested person transaction. If the Company intends to enter into an interested person transaction, the Board of Directors will ensure that the Company complies with the requisite rules under Chapter 9.
- The AC has met and will meet regularly to review if the Company will be entering into an interested person transaction, and if so, the AC ensures that the relevant rules under Chapter 9 are complied with.

Interested person transaction carried out during the financial year ended 31 December 2006:

Name of Interested person	Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than $100,000 and transactions conducted under Shareholders' Mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under Shareholders' Mandate pursuant to Rule 920 (excluding transactions less than $100,000)
PFH Group (Note 1)	RMB32,552,000 (Note 2)	RMB313,275,000 (Note 3)

Notes:

1. PFH Group means People's Food Holdings Limited and its subsidiaries. People's Food Holdings Limited is one of our Substantial Shareholders, which indirectly holds approximately 49% and 36.75% interests of our Company prior to and after the Company's Initial Public Offer.
2. The amount represents the charges paid to PFH Group for the supply of electricity. The charges were made were reference to the market price.
3. The amount represents the sales of soy protein isolates to PFH Group.

For more information on the aforesaid interested person transactions, please refer to Note 24 to the Financial Statements on page 38 of this Annual Report.

(G) MATERIAL CONTRACTS

Save as disclosed under "Material Contracts" on page 130 of the Prospectus dated 3 May 2005 and in the Directors' Report and these financial statements, no material contracts to which the Company or any subsidiary, is a party and which involve the interests of the chief executive officer, directors or controlling shareholders, were subsisted at the end of the financial year or entered into since the end of the previous financial year.

Directors' Report

The directors are pleased to present their report and the audited financial statements of the Company for the financial year ended 31 December 2006.

Directors

The directors of the Company during the financial year ended 31 December 2006 and up to the date of this report are:

Executive Directors
Mr Li Zhuping
Mr Zhou Yan'An (appointed on 13 December 2006)
Mr Hu Fabao (resigned on 13 December 2006)

Non-executive Director
Mr Ming Kam Sing

Independent Non-executive Directors
Mr Ong Tiong Seng
Mr Chan Wai Meng

In accordance with the Company's Bye-Law 104, Mr Ming Kam Sing and Mr Ong Tiong Seng retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting. Mr Zhou Yan'An retire pursuant to Bye-Law 107(B) and being eligible, offer himself for re-election at the forthcoming annual general meeting.

Arrangements To Enable Directors To Acquire Shares Or Debentures

Neither at the end of nor at any time during the financial period was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' Interests In Shares Or Debentures

The directors holding office at the end of the financial period and their interests in the share capital and debentures of the Company and related corporations as recorded in the register of directors' shareholdings kept by the Company are as follows:

Ordinary shares of US$0.10 each of the Company as at 1 January 2006

Name of Director	Direct Interest	Deemed Interest
Mr Ming Kam Sing	–	–
Mr Li Zhuping[1]	–	58,500,000
Mr Ong Tiong Seng	–	–
Mr Chan Wai Meng	–	–

Ordinary shares of S$0.02 each of the Company as at 13 December 2006

Name of Director	Direct Interest	Deemed Interest
Mr Zhou Yan'An	–	–

Directors' Report

Ordinary shares of S$0.02 each of the Company as at 31 December 2006

Name of Director	Direct Interest	Deemed Interest
Mr Ming Kam Sing	–	–
Mr Li Zhuping[1]	–	292,500,000
Mr Zhou Yan'An	–	–
Mr Ong Tiong Seng	–	–
Mr Chan Wai Meng	–	–

Ordinary shares of S$0.02 each of the Company as at 21 January 2007

Name of Director	Direct Interest	Deemed Interest
Mr Ming Kam Sing	–	–
Mr Li Zhuping[1]	–	292,500,000
Mr Zhou Yan'An	–	–
Mr Ong Tiong Seng	–	–
Mr Chan Wai Meng	–	–

(1) Elite Union Corporation is a company incorporated in the British Virgin Islands and is wholly-owned by Li Zhuping, the Company's Chief Executive Officer. Li Zhuping is deemed to have an interest in all the Shares held by Elite Union Corporation.

Directors' Service Contracts

The Company entered into separate service agreements (the "Service Agreements") with the executive directors, Mr Li Zhuping and Mr Zhou Yan'An, for a period of two years with effect from 31 March 2005 and 13 February 2007 respectively (unless otherwise terminated by either party giving not less than six months' notice to the other). The Company may also terminate their respective Service Agreements if any of these executive directors is guilty of dishonesty or serious or persistent misconduct, becomes bankrupt or otherwise acts to the prejudice of the Company.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

Options

The Company implemented the Pine Agritech Employee Share Option Scheme (the "ESOS Scheme") for eligible employees. The ESOS Scheme was approved by shareholders of the Company on 23 March 2005.

The ESOS Scheme is administered by the Remuneration Committee whose members are:

Mr Ong Tiong Seng – Chairman
Mr Chan Wai Meng
Mr Ming Kam Sing

The Reumneration Committee comprises directors who may be participants of the ESOS Scheme. A member of the Remuneration Committee who is a participant of the ESOS Scheme is prohibited from being involved in the Committee's deliberation in respect of Options to be granted to him.

Directors' Report

The Options granted under the ESOS Scheme may have exercised prices that are, at the Remuneration Committee's discretion, set at a price (the "Market Price") equal to the average of the last dealt prices for the Shares on the Official List of the SGX-ST for the five consecutive Market Days immediately preceding the relevant date of grant of the relevant Option; or at a discount to the Market Price (subject to a maximum discount of 20 per cent). Options which are fixed at the Market Price ("Market Price Option") may be exercised after the first anniversary of the date of grant of that Option while Options exercisable at a discount to the Market Price ("Discounted Option") may only be exercised after the second anniversary from the date of grant of the Option. Under no circumstances shall the exercise price be less than the normal value of a Share.

Under the rules of the ESOS, there are no fixed periods for the grant of Options. As such, offers for the grant of Options may be made at any time from time to time at the discretion of the Remuneration Committee. However, no Option shall be granted during the period of 30 days immediately preceding the date of announcement of our Company's interim or final results (as the case may be). In addition, in the event that an announcement on any matter of an exceptional nature involving unpublished price sensitive information, offers may only be made after the second Market Day from the date on which the aforesaid announcement is made.

Since the approval by the Shareholders on 23 March 2005, no Options have been granted under the ESOS Scheme.

There were no shares issued during the financial period by virtue of the exercise of options to take up unissued shares of the Company during the financial period.

There were no unissued shares of the Company under option at the end of the financial period.

Audit Committee, Nominating Committee and Remuneration Committee

Details of the Company's audit committee, nominating committee and remuneration committee are set out in the Statement of Corporate Governance on pages 1 to 9 of this annual report.

Directors' Interests In Contracts

No director received or became entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest.

Auditors

Grant Thornton, Certified Public Accountants, Hong Kong have expressed their willingness to accept reappointment.

The Audit Committee has recommended to the directors the nomination of Grant Thornton, Certified Public Accountants, Hong Kong for re-appointment as external auditors of the Company at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD

Li Zhuping Director	Zhou Yan'An Director

28 February 2007

Statement by Directors

We, Li Zhuping and Zhou Yan'An, being two of the directors of the Company, do hereby state that, in the opinion of the directors:

(i) the accompanying company and consolidated balance sheets, consolidated income statement, company and consolidated statements of changes in equity and consolidated cash flow statement together with the notes thereto as set out on pages 16 to 39, are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the results of the business of the Group and changes in equity of the Company and of the Group and cash flows of the Group for the financial year then ended;

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The board of directors authorised these financial statements for issue on 28 February 2007.

ON BEHALF OF THE BOARD

Li Zhuping
Director

Zhou Yan'An
Director

28 February 2007

Independent Auditors' Report

To the members of Pine Agritech Limited (incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pine Agritech Limited (the "Company") and its subsidiaries (the "Group"), which comprise the company and consolidated balance sheets as at 31 December 2006, and the consolidated income statement, the company and consolidated statements of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. Their opinion on these financial statements is set out on page 14.

The directors' responsibility for the financial statements includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

28 February 2007

Consolidated Income Statement

for the year ended 31 December 2006

	Notes	Group 2006	Group 2005
		RMB'000	RMB'000
Revenue	5	**1,577,715**	797,035
Cost of sales		**(878,359)**	(526,214)
Gross profit		**699,356**	270,821
Other income	5	**5,409**	5,077
Selling and distribution expenses		**(40,856)**	(21,571)
Administrative expenses		**(19,133)**	(15,075)
Other operating expenses		**(2,781)**	(1,171)
Profit from operations	6	**641,995**	238,081
Finance costs	7	**(5,314)**	(3,457)
Profit before taxation		**636,681**	234,624
Taxation	8	**(98,633)**	–
Profit for the year		**538,048**	234,624
Dividends	9	**162,000**	117,000
Earnings per share	10		
– Basic		**RMB0.18**	RMB0.09
– Diluted		**N/A**	N/A

Balance Sheets

as at 31 December 2006

	Notes	Group 2006	Group 2005	Company 2006	Company 2005
		RMB'000	RMB'000	**RMB'000**	RMB'000
ASSETS					
Non–current assets					
Property, plant and equipment	11	**726,098**	482,241	**–**	–
Deposits	12	**3,128**	8,144	**–**	–
Land use rights	13	**82,919**	36,687	**–**	–
Investments in subsidiaries	14	**–**	–	**225,988**	225,988
		812,145	527,072	**225,988**	225,988
Current assets					
Inventories	15	**201,831**	163,496	**–**	–
Trade receivables		**254,325**	13,728	**–**	–
Due from a subsidiary	14	**–**	–	**538,083**	530,569
Prepayments, other receivables and deposits		**15,536**	15,220	**776**	812
Cash and bank balances	16	**334,576**	451,574	**861**	100
		806,268	644,018	**539,720**	531,481
TOTAL ASSETS		**1,618,413**	1,171,090	**765,708**	757,469
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Issued capital	19	**301,408**	301,408	**301,408**	301,408
Proposed final dividend	9	**108,000**	117,000	**108,000**	117,000
Reserves		**957,136**	581,088	**334,166**	329,116
Total equity		**1,366,544**	999,496	**743,574**	747,524
Current liabilities					
Interest–bearing bank borrowing		**–**	100,000	**–**	–
Trade payables		**10,179**	10,468	**–**	–
Accrued liabilities and other payables	17	**200,327**	51,926	**17,641**	7,200
Due to a subsidiary	14	**–**	–	**4,493**	2,745
Income tax payable		**36,763**	–	**–**	–
		247,269	162,394	**22,134**	9,945
Non–current liabilities					
Other payable	18	**4,600**	9,200	**–**	–
Total liabilities		**251,869**	171,594	**22,134**	9,945
TOTAL EQUITY AND LIABILITIES		**1,618,413**	1,171,090	**765,708**	757,469

Li Zhuping
Director

Zhou Yan'An
Director

Statements of Changes in Equity
for the year ended 31 December 2006

GROUP

	Issued capital	Proposed final dividend	Share premium*	Statutory reserves*	Merger reserve*	Retained profit*	Total
	RMB'000	RMB'000	RMB'000 (note 20)	RMB'000 (note 20)	RMB'000 (note 20)	RMB'000	RMB'000
Balance at 1 January 2005	–	–	–	–	–	–	–
Profit for the year	–	–	–	–	–	234,624	234,624
Transfer to statutory reserves	–	–	–	35,761	–	(35,761)	–
Total income and expense for the year	–	–	–	35,761	–	198,863	234,624
Issue of shares on the Restructuring Exercise	225,988	–	–	–	–	–	225,988
Merger reserve arising from the Restructuring Exercise	–	–	–	–	135,709	–	135,709
Issue of new shares	75,420	–	358,245	–	–	–	433,665
Share issue expenses	–	–	(30,490)	–	–	–	(30,490)
Proposed final dividend 2005	–	117,000	–	–	–	(117,000)	–
Balance at 31 December 2005 and 1 January 2006	301,408	117,000	327,755	35,761	135,709	81,863	999,496
Profit for the year	–	–	–	–	–	538,048	538,048
Transfer to statutory reserves	–	–	–	55,452	–	(55,452)	–
Total income and expense for the year	–	–	–	55,452	–	482,596	538,048
Final dividend 2005 paid	–	(117,000)	–	–	–	–	(117,000)
Interim dividend 2006	–	–	–	–	–	(54,000)	(54,000)
Proposed final dividend 2006	–	108,000	–	–	–	(108,000)	–
Balance at 31 December 2006	**301,408**	**108,000**	**327,755**	**91,213**	**135,709**	**402,459**	**1,366,544**

* These reserve accounts comprise the consolidated reserves of approximately RMB957,136,000 (2005: RMB581,088,000) in the consolidated balance sheet.

COMPANY

	Issued capital	Proposed final dividend	Share premium**	Retained profit/ (Accumulated loss)**	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2005	–	–	–	(92)	(92)
Profit for the year	–	–	–	118,453	118,453
Total income and expense for the year	–	–	–	118,453	118,453
Issue of shares on the Restructuring Exercise	225,988	–	–	–	225,988
Issue of new shares	75,420	–	358,245	–	433,665
Share issue expenses	–	–	(30,490)	–	(30,490)
Proposed final dividend 2005	–	117,000	–	(117,000)	–
Balance at 31December 2005 and 1 January 2006	301,408	117,000	327,755	1,361	747,524
Profit for the year	–	–	–	167,050	167,050
Total income and expense for the year	–	–	–	167,050	167,050
Final dividend 2005 paid	–	(117,000)	–	–	(117,000)
Interim dividend 2006	–	–	–	(54,000)	(54,000)
Proposed final dividend 2006	–	108,000	–	(108,000)	–
Balance at 31 December 2006	**301,408**	**108,000**	**327,755**	**6,411**	**743,574**

** These reserve accounts comprise the Company's reserves of approximately RMB334,166,000 (2005: RMB329,116,000).

Consolidated Cash Flow Statement

for the year ended 31 December 2006

	Notes	2006	2005
		RMB'000	RMB'000
Cash flows from operating activities			
Profit before taxation		**636,681**	234,624
Adjustments for:			
Interest income	5	**(2,394)**	(1,036)
Interest expenses	7	**5,314**	3,457
Amortisation of land use rights	6	**1,768**	1,426
Depreciation	6	**33,075**	18,498
Loss on disposal of property, plant and equipment	6	**1,379**	509
Operating profit before working capital changes		**675,823**	257,478
(Increase)/decrease in inventories		**(38,335)**	12,692
Increase in trade receivables		**(240,597)**	(7,129)
(Increase)/decrease in prepayments, other receivables and deposits		**(316)**	15,765
Decrease in trade payables		**(289)**	(172)
Increase/(decrease) in accrued liabilities and other payables		**143,801**	(19,338)
Cash generated from operations		**540,087**	259,296
Interest paid		**(5,314)**	(3,457)
Income taxes paid		**(61,870)**	–
Net cash generated from operating activities		**472,903**	255,839
Cash flows from investing activities			
Purchases of property, plant and equipment		**(270,167)**	(238,084)
Deposits paid for the acquisition of property, plant and equipment		**(3,128)**	(8,144)
Acquisition of land use rights		**(48,000)**	–
Interest received		**2,394**	1,036
Net cash used in investing activities		**(318,901)**	(245,192)
Cash flows from financing activities			
Proceeds from issue of new ordinary shares, net of share issue expenses		**–**	403,175
Repayment of bank loan		**(100,000)**	(100,000)
New bank loan		**–**	100,000
Dividend paid		**(171,000)**	–
Net cash (used in)/generated from financing activities		**(271,000)**	403,175
Net (decrease)/increase in cash and cash equivalents		**(116,998)**	413,822
Cash and cash equivalents at beginning of year/arising from the Restructuring Exercise		**451,574**	37,752
Cash and cash equivalents at end of year		**334,576**	451,574
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**334,576**	451,574

Notes to the Financial Statements
for the year ended 31 December 2006

1. GROUP RESTRUCTURING AND CORPORATE INFORMATION

Pursuant to a group restructuring exercise (the "Restructuring Exercise") to rationalise the structure of the Group in preparation for the initial public offering of the Company's shares on the Singapore Exchange Securities Trading Limited (the "SGX-ST"), on 31 March 2005, the Company became the holding company of the subsidiaries comprising the Group. This was accomplished by entering into a share purchase agreement with Glorious Faith Corporation ("Glorious Faith"), the then holding company of the subsidiaries as set out in note 14 to the financial statements, and its shareholders to acquire the entire issued and paid-up capital of Rainbow Palace Inc. ("Rainbow Palace") for a consideration of approximately US$26.5 million or approximately RMB220.0 million, which was determined based on the pro forma consolidated net asset value of Rainbow Palace as at 31 December 2003 and the value of the amount due from Rainbow Palace to Glorious Faith of US$26.5 million. The purchase consideration was satisfied by: (a) the allotment and issue of 449,798,400 ordinary shares of S$0.10 each in the Company, credited as fully paid; and (b) the credit as fully paid of the 201,600 ordinary shares of S$0.10 each in the Company which were issued to Elite Union Corporation ("Elite Union") upon the incorporation of the Company. Further details of the Restructuring Exercise are set out in note 19 to the financial statements and the Company's prospectus dated 3 May 2005. The Company's shares were successfully listed on the SGX-ST on 12 May 2005.

Pursuant to the Restructuring Exercise, since 1 January 2005, all of the participating entities which took part in the Restructuring Exercise were owned by the same group of ultimate shareholders immediately before and after the Restructuring Exercise. Accordingly, the Group is regarded as a continuing entity resulting from the Restructuring Exercise since 1 January 2005. As a result, the consolidated balance sheet as at 31 December 2005 has been prepared to present the Group's assets and liabilities as if the Restructuring Exercise had been completed as at 1 January 2005. The consolidated income statement and cash flow statement for the year ended 31 December 2005 include the results and cash flows of the Company and its subsidiaries with effect from or since their respective dates of incorporation or acquisition, whichever is a shorter period as if the current group structure had been in existence since 1 January 2005.

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda on 7 September 2004. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements.

The Group's operations are principally conducted in the People's Republic of China (the "PRC"). Accordingly, the financial statements have been presented in Renminbi ("RMB"), being the functional and presentation currency of the Company and the Group.

The financial statements on pages 16 to 39 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB").

The financial statements for the year ended 31 December 2006 were approved for issue by the board of directors on 28 February 2007.

2. ADOPTION OF NEW AND AMENDED STANDARDS

The Group has adopted all of the new and amended standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006.

The adoption of the new and amended IFRSs did not result in significant alterations to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these IFRSs did not result in substantial changes to the amounts or disclosures in these financial statements.

Notes to the Financial Statements
for the year ended 31 December 2006

2. ADOPTION OF NEW AND AMENDED STANDARDS (Continued)

The Group has not early adopted the following IFRSs that have been issued but are not yet effective. The adoption of such IFRSs will not result in substantial changes to the Group's accounting policies.

IAS 1 (Amendment)	Presentation of Financial Statements - Capital Disclosures [5]
IFRS 7	Financial Instruments – Disclosures [5]
IFRS 8	Operating segments [8]
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies [1]
IFRIC 8	Scope of IFRS 2 [2]
IFRIC 9	Reassessment of Embedded Derivatives [3]
IFRIC 10	Interim Financial Reporting and Impairment [4]
IFRIC 11	IFRS 2: Group and Treasury Share Transactions [6]
IFRIC 12	Service Concession Arrangements [7]

Notes:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared under the historical cost convention and in accordance with IFRSs. The measurement bases are fully described in the accounting polices below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries made up to 31 December each year. All material intercompany transaction and balance within the Group are eliminated on consolidation.

Notes to the Financial Statements
for the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

3.4 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it is probable that future economic benefits associated which the item will flow to the Group, and the expenditure of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Leasehold buildings	The shorter of the lease terms and 50 years
Plant and machinery	7-10 years
Furniture, fixtures and office equipment	2-5 years

The gain or loss on disposal or retirement is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Construction in progress, which represents buildings under construction, and plant and machinery pending installation, is stated at cost less any impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on construction in progress. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

3.5 Land use rights

Land use rights represent up-front payments to acquire long term interest in the usage of land. They are stated at cost and charged to the income statement over the remaining period of the lease on a straight line basis net off any impairment losses.

3.6 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using weighted average method and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

Notes to the Financial Statements

for the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost. Appropriate allowance for estimated irrecoverable amounts are recognised in income statement 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.

3.8 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and in banks, less bank overdrafts which are repayable in demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet classification, cash and bank balances comprise cash on hand and demand deposits repayable on demand placed with any banks or other financial institutions. Cash includes deposits denominated in foreign currencies.

3.9 Impairment of assets

Property, plant and equipment, land use rights, investments in subsidiaries and balances with subsidiaries are subject to impairment testing and tested whenever there are indications that the asset's carrying amount may not be recoverable.

Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation , if no impairment loss had been recognised.

3.10 Issued capital

Ordinary shares are classified as equity. Issued capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from equity (net of any related income tax benefit) to the extent that they are incremental costs directly attributable to the equity transaction.

Notes to the Financial Statements
for the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Loans and borrowings

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are expensed as incurred.

3.12 Trade payables

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

3.13 Provisions, contingent liabilities and contingent assets

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

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

3.14 Income tax

Income tax for the year comprises current and deferred tax.

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

The PRC Corporate Income Tax is provided at rates applicable to an enterprise in the PRC on income for financial reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purpose.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the 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 the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Notes to the Financial Statements

for the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at 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. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3.15 Recognition of revenue

Revenue comprises the fair value for the sales of goods, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows: -

(i) sale of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods; and

(ii) interest income is recognised on a time-proportion basis using the effective interest method.

3.16 Leases

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

(i) Operating lease charges as the lessee

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the lease assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(ii) Assets leased out under operating leases as the lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

Notes to the Financial Statements

for the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Retirement benefits

Pursuant to the relevant regulations of the PRC government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby a subsidiary of the Company is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the income statement as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

3.18 Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products of not exceeding 5 years, commencing from the date when the products are put into commercial production.

The research and development costs incurred were charged to the income statement.

3.19 Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transactions dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

In the consolidated financial statements, all individual financial statements of subsidiaries, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rate at the balance sheet date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with in to the currency translation reserve in equity.

3.20 Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party (1) controls, is controlled, or is under common control with, the Company/Group; (2) has an interest in the Company that gives it significant influence over the Company/Group; or (3) has joint control over the Company/Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Company or its parent;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Related parties (Continued)

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

3.21 Segment reporting

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

4. CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at the balance sheet date.

(ii) Impairment of trade receivables

The Group's management assess the collectibility of trade and bills receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the impairment loss at the balance sheet date.

5. REVENUE AND OTHER INCOME

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and after elimination of all significant intra-group transactions.

No separate analysis of segment information by business or geographical segments is presented as the Group's major business comprises the manufacture and sale of soybean based food products. The Group's revenue, expenses, results, assets and liabilities and capital expenditure are principally attributable to a single geographical region, which is the PRC.

Notes to the Financial Statements
for the year ended 31 December 2006

5. REVENUE AND OTHER INCOME (Continued)

An analysis of the Group's revenue and other income is as follows:

	Group 2006	Group 2005
	RMB'000	RMB'000
Revenue		
Sales of goods	**1,577,715**	797,035
Other income		
Interest income	**2,394**	1,036
Others	**3,015**	4,041
	5,409	5,077

6. PROFIT FROM OPERATIONS

Profit from operations is arrived after charging:

	Group 2006	Group 2005
	RMB'000	RMB'000
Cost of inventories sold	**746,315**	526,214
Amortisation of land use rights*	**1,768**	1,426
Depreciation	**33,075**	18,498
Minimum lease payment under operating leases:		
- production facilities	**770**	775
Auditors' remuneration**	**930**	900
Research and development costs	**2,646**	1,168
Loss on disposal of property, plant and equipment	**1,379**	509
Staff costs	**54,549**	25,818
Less : retirement scheme contribution	**(5,015)**	(3,053)
amount included in research and development costs	**(2,431)**	(322)
Staff cost: Wages and salaries	**47,103**	22,443

* Amortisation of land use rights of approximately RMB1,768,000 (2005: RMB1,426,000) has been charged to administrative expenses.

** The independent auditors received non-audit fee of approximately RMB4,587,000 for acting as the reporting accountants in respect of the preparation of the initial public offering of the Company's shares on the SGX-ST during the year ended 31 December 2005. The non-audit fees paid by the Group were offset against the share premium account. The independent auditors did not receive any fees for non-audit services for the year ended 31 December 2006.

Notes to the Financial Statements

for the year ended 31 December 2006

7. FINANCE COSTS

	Group 2006	Group 2005
	RMB'000	RMB'000
Interest charges on:		
Bank loan wholly repayable within five years	**5,314**	3,457

8. TAXATION

	Group 2006	Group 2005
	RMB'000	RMB'000
Current tax		
Current year provision:		
The PRC	**98,633**	–

In accordance with various approval documents issued by the State Tax Bureau and the Local Tax Bureau of the PRC, Linyi Shansong Biological Products Co., Ltd. ("Linyi Shansong"), the Company's wholly-owned subsidiary established as a wholly foreign-owned enterprise ("WOFE") in the PRC, is exempted from the state and local corporate income tax for the first two profitable financial years of its operations starting from the financial year ended 31 December 2004, and thereafter is entitled to a 50% relief from the state corporate income tax and exempted from the local corporate income tax of the PRC for the following three financial years (the "Tax Holiday"). Accordingly, Linyi Shansong is subject to the reduced tax rate of 15% for the three financial years from 1 January 2006 to 31 December 2008. Upon expiry of the Tax Holiday on 31 December 2008, the usual PRC corporate income tax rate of 33%, comprising a state corporate income tax rate of 30% and a local corporate income tax rate of 3%, is applicable to the Linyi Shansong.

Tax has not been provided by the Company as the Company did not derive any assessable profits during the year (2005: nil).

No deferred tax has been provided as the Group and the Company did not have any significant temporary differences which gave rise to a deferred tax asset or liability at the year end date.

A reconciliation of the expected tax expense with the tax actual expense charged to the income statement is presented below:

	Group 2006	Group 2005
	RMB'000	RMB'000
Profit before taxation	**636,681**	234,624
Tax at the applicable tax rate of 33%	**210,105**	77,426
Non-taxable income	**(1,385)**	(913)
Non-deductible expenses	**8,272**	2,598
Tax Holiday of a WOFE of the Group	**(118,359)**	(80,372)
Tax effect on tax loss not recognised	**–**	1,261
	98,633	–

Notes to the Financial Statements

for the year ended 31 December 2006

9. DIVIDENDS

	Group 2006	2005
	RMB'000	RMB'000
The Company		
Proposed final dividend		
– RMB0.036 per share (2005: RMB0.195 per share)	**108,000**	117,000
Interim dividend		
– RMB0.09 per share (2005: Nil)	**54,000**	–
	162,000	117,000

A final dividend of RMB0.036 per ordinary share (2005: RMB0.195 per ordinary share), amounting to approximately RMB108,000,000 (2005: RMB117,000,000), has been proposed and will be submitted for formal approval at the forthcoming Annual General Meeting. As such, the final dividend has not been recognised as liability as at the balance sheet date.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately RMB538,048,000 (2005: RMB234,624,000) and on 3,000,000,000 ordinary shares (2005: the weighted average of 2,728,767,125 ordinary shares, restated) in issue during the year as adjusted for the share sub-divided on the basis of every one ordinary share of the Company of S$0.1 each into five ordinary shares of HK$0.02 each (note 19(e)).

Diluted earnings per share for the year ended 31 December 2006 and 2005 was not presented as there was no dilutive potential share.

Notes to the Financial Statements
for the year ended 31 December 2006

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold buildings	Plant and machinery	Furniture, fixtures and office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2005					
Arising from the Restructuring Exercise	43,322	99,980	515	112,127	255,944
Additions	7,532	55,990	69	181,713	245,304
Transfers	93,362	12,283	17	(105,662)	–
Disposals	–	(466)	(43)	–	(509)
Depreciation charge	(3,878)	(14,501)	(119)	–	(18,498)
Closing net book amount	**140,338**	**153,286**	**439**	**188,178**	**482,241**
At 31 December 2005					
Cost	147,896	184,833	739	188,178	521,646
Accumulated depreciation	(7,558)	(31,547)	(300)	–	(39,405)
Net book amount	**140,338**	**153,286**	**439**	**188,178**	**482,241**
Year ended 31 December 2006					
Opening net book amount	140,338	153,286	439	188,178	482,241
Additions	199	8,813	62	269,237	278,311
Transfers	42,040	147,724	59	(189,823)	–
Disposals	–	(1,339)	(40)	–	(1,379)
Depreciation charge	(8,510)	(24,420)	(145)	–	(33,075)
Closing net book amount	**174,067**	**284,064**	**375**	**267,592**	**726,098**
At 31 December 2006					
Cost	190,135	340,031	820	267,592	798,578
Accumulated depreciation	(16,068)	(55,967)	(445)	–	(72,480)
Net book amount	**174,067**	**284,064**	**375**	**267,592**	**726,098**

The Group's leasehold buildings are situated in the PRC and are held under medium term leases.

Depreciation charge of approximately RMB32,892,000 (2005: RMB18,369,000) has been included in cost of sales, approximately RMB174,000 (2005: RMB120,000) in administrative expenses and approximately RMB9,000 (2005: RMB9,000) in selling and distribution expenses.

As at 31 December 2006, leasehold buildings included certain buildings with a net book value of RMB141 million (2005: RMB99 million) for which the Group was still in the process of obtaining the building ownership certificates. These buildings are erected on lands for which the relevant land use rights certificates have been obtained by the Group. As confirmed by the Group's legal advisors, the Group has obtained the right to use these buildings.

At 31 December 2005, certain of the Group's leasehold buildings and plant and machinery with an aggregate net book value of approximately RMB134,750,000 had been pledged to a bank to secure a bank loan granted to the Group which was repaid during the year ended 31 December 2006.

Notes to the Financial Statements
for the year ended 31 December 2006

12. DEPOSITS

The amount represented the Group's deposits paid for the acquisition of property, plant and equipment.

13. LAND USE RIGHTS

	Group
	RMB'000
Year ended 31 December 2005	
Arising from the Restructuring Exercise	38,113
Amortisation	(1,426)
Closing net book amount	**36,687**
At 31 December 2005 and 1 January 2006	
Cost	39,945
Accumulated amortisation	(3,258)
Net book amount	**36,687**
Year ended 31 December 2006	
Opening net book amount	36,687
Additions	48,000
Amortisation	(1,768)
Closing net book amount	**82,919**
At 31 December 2006	
Cost	87,945
Accumulated amortisation	(5,026)
Net book amount	**82,919**

The Group's land use rights included leasehold interest in land located in the PRC with lease terms expiring in year 2027 to 2056.

As at 31 December 2006, the land use rights included a net book value of approximately RMB47 million (2005: Nil) for which the Group was still in the process of obtaining the land use rights certificates. As confirmed by the Group's legal advisors, the Group has obtained the right to use the land legally by way of such acquisition. Once the Group has obtained all relevant certificates, the Group has the right to assign, lease or mortgage the land.

Notes to the Financial Statements

for the year ended 31 December 2006

14. INVESTMENTS IN SUBSIDIARIES

	Company 2006	Company 2005
	RMB'000	RMB'000
Unlisted shares, at cost	**225,988**	225,988

The balances with subsidiaries are unsecured, interest-free and are repayable on demand.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary/ paid-up registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Rainbow Palace Inc. ("Rainbow Palace")	British Virgin Islands	US$1	100	–	Investment holding
Linyi Shansong Biological Products Co., Ltd.	PRC	US$83,800,000*	–	100	Manufacture and sale of soybean products

* On 18 December 2006, the registered capital of Linyi Shansong was approved to be increased from USD54,000,000 to USD83,800,000. As at the balance sheet date, USD60,000,000 of the total registered capital had been paid-up and the Group therefore had an outstanding investment commitment of USD23,800,000 (approximately RMB188,913,000) (note 21) in the subsidiary.

The financial statements of the above subsidiaries are audited by Grant Thornton, Hong Kong for statutory purpose and/or for the purpose of the Group consolidation of Pine Agritech Limited.

15. INVENTORIES

	Group 2006	Group 2005
	RMB'000	RMB'000
Raw materials	**152,239**	105,287
Finished goods	**49,592**	58,209
	201,831	163,496

16. CASH AND BANK BALANCES

As at 31 December 2006, the Group had cash and bank balances denominated in RMB amounting to approximately RMB280,699,000 (2005: RMB450,000,000) which were deposited with banks in the PRC. The RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

Notes to the Financial Statements
for the year ended 31 December 2006

17. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2006	2005	2005	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued liabilities	**39,139**	20,012	**950**	900
Other payables	**161,188**	31,914	**16,691**	6,300
	200,327	51,926	**17,641**	7,200

18. OTHER PAYABLE

Other payable represented 企業扶持資金 advanced by the PRC government. The balance is non-interest bearing and unsecured. There is one instalment of RMB4,600,000 repayable in the year ending 31 December 2008 included in other payable under non-current liabilities. The remaining one instalment of RMB4,600,000 included in accrued liabilities and other payables under current liabilities would be repayable during the year ending 31 December 2007.

19. SHARE CAPITAL

	Notes	Number of shares	Amount
			RMB'000
Ordinary shares of S$0.02 (2005: S$0.10) each			
Authorised:			
As at 1 January 2005	(a)	201,600	101
Increase during the year	(b)	999,798,400	502,699
As at 31 December 2005 and 1 January 2006		1,000,000,000	502,800
Subdivision of shares	(e)	**4,000,000,000**	**–**
As at 31 December 2006		**5,000,000,000**	**502,800**
Issued:			
As at 1 January 2005 as nil paid	(a)	201,600	–
Issue of 449,798,400 shares and 201,600 nil paid shares credited as fully paid pursuant to the Restructuring Exercise	(c)	449,798,400	225,988
Issue of shares by initial public offering as fully paid	(d)	150,000,000	75,420
As at 31 December 2005 and 1 January 2006 as fully paid		**600,000,000**	**301,408**
Subdivision of shares	(e)	**2,400,000,000**	**–**
As at 31 December 2006 as fully paid		**3,000,000,000**	**301,408**

19. SHARE CAPITAL (Continued)

The movements in share capital were as follows:

(a) As at the date of incorporation, the authorised share capital of the Company was US$12,000 divided into 120,000 ordinary shares of US$0.10 each, all of which were allotted and issued nil-paid upon the incorporation of the Company.

Pursuant to an ordinary resolution passed on 15 October 2004, the following changes were approved:

(i) the redenomination of the authorised and issued share capital of the Company of US$12,000 comprising 120,000 shares of par value US$0.10 each at the currency conversion rate of US$1.00 to S$1.68, such that the authorised and issued share capital became S$20,160 divided into 120,000 shares of par value S$0.168 each;

(ii) the sub-division of every 1 ordinary share of S$0.168 each in the authorised and issued share capital of the Company into 168 shares of S$0.001 each; and

(iii) the consolidation of every 100 ordinary shares of S$0.001 each into 1 ordinary share of S$0.10 each. The resultant authorised and issued share capital of S$20,160 is divided into 201,600 shares of S$0.10 each.

(b) Pursuant to a written resolution passed on 23 March 2005, the authorised share capital of the Company was increased from S$20,160 divided into 201,600 ordinary shares of S$0.10 each to S$100 million divided into 1,000,000,000 ordinary shares of S$0.10 each by the creation of an additional 999,798,400 ordinary shares of S$0.10 each.

(c) On 31 March 2005, pursuant to the Restructuring Exercise, an aggregate of 449,798,400 ordinary shares of S$0.10 each in the Company were issued and credited as fully paid; and the 201,600 ordinary shares of S$0.10 each then outstanding in the Company were credited as fully paid, in consideration of and in exchange for the acquisition by the Company of the entire issued share capital of Rainbow Palace.

(d) On 11 May 2005, the Company allotted and issued 150,000,000 ordinary shares of S$0.10 each upon listing of the shares on the Main board of the SGX-ST at a price of S$0.575 per share.

(e) Pursuant to an ordinary resolution passed on 23 October 2006, the authorised and issued share capital of the Company of every 1 ordinary share of S$0.10 each were sub-divided into 5 shares of S$0.02 each.

20. RESERVES

Share premium

Under the bye-laws of the Company, the share premium account is not distributable.

Statutory reserves

In accordance with the relevant laws and regulations of the PRC and the articles of association of Linyi Shansong, a subsidiary of the Company established as WOFE, Linyi Shansong is required to transfer 10% of its profit after tax prepared in accordance with the accounting regulations in the PRC to the statutory reserve until the reserve balance reaches 50% of its registered capital. Such reserve may be used to reduce any losses incurred or to be capitalised as paid-up capital.

Notes to the Financial Statements

for the year ended 31 December 2006

20. RESERVES (Continued)

In addition, Linyi Shansong is required to transfer 5% of its profit after tax prepared in accordance with the accounting regulations in the PRC to the statutory public welfare reserve. The use of the statutory public welfare reserve is restricted to capital expenditure for employees' facilities. This statutory public welfare reserve is non-distributable except upon liquidation of the subsidiary.

Merger reserve

The merger reserve of the Group represents the difference between the then consolidated net assets value of the subsidiaries acquired pursuant to the Restructuring Exercise over the nominal value of the shares of the Company issued in exchange thereof.

21. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following outstanding capital commitments:

	Group	
	2006	**2005**
	RMB'000	RMB'000
(a) Contracted, but not provided for, in respect of acquisition of :		
Plant and machinery	**50,965**	3,963
(b) Authorised, but not contracted for, in respect of acquisition of :		
Plant and machinery	**14,682**	–
(c) Investment commitment in a subsidiary established in the PRC	**188,913**	–

The Company did not have any capital commitments as at 31 December 2005 and 2006.

22. OPERATING LEASE COMMITMENTS

(a) Group as lessee

As at 31 December 2006, the total future minimum lease payments of the Group under non-cancellable operating leases for production facilities are as follows:

	Group	
	2006	**2005**
	RMB'000	RMB'000
Within one year	**300**	300
In the second to fifth years inclusive	**700**	1,000
	1,000	1,300

Notes to the Financial Statements

for the year ended 31 December 2006

22. OPERATING LEASE COMMITMENTS (Continued)

(b) Group as lessor

As at 31 December 2006, the Group had future aggregate minimum lease receipts under non-cancellable operating leases on hand as follows:

	Group	
	2006	**2005**
	RMB'000	RMB'000
Within one year	**302**	302
In the second to fifth years inclusive	**1,209**	1,209
After five years	**4,207**	4,509
	5,718	6,020

The Company did not have any lease commitments as lessee or lessor as at 31 December 2005 and 2006.

23. FINANCIAL INSTRUMENTS

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

As at 31 December 2006, the Group's financial instruments mainly consisted of cash and bank balances, trade receivables, other receivables, trade payables, accrued liabilities, and other payable.

(i) Foreign currency risk

The Group has no significant foreign currency risk due to limited foreign currency trade related transactions. The Group does not use derivative financial instruments to hedge its foreign currency risk.

(ii) Credit risk

The Group's bank balances are mainly deposited with the PRC banks.

The carrying amounts of the trade receivables and other receivables included in the balance sheet represent the Group's maximum exposure to credit risk in relation to the Group's financial assets. No other financial assets carry a significant exposure to credit risk. The Group has no significant concentration of credit risk due to its large customer base.

The Group has concentration of credit risk arising from its small customer base. The Group performs ongoing credit evaluation of its customers' financial position. Provision for impairment is based upon a review of the expected collectibility of all receivables.

(iii) Fair values

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair value of long-term liabilities was not disclosed because the carrying value is not materially different from the fair value.

Notes to the Financial Statements
for the year ended 31 December 2006

24. RELATED PARTY TRANSACTIONS

(a) Trading transaction

During the year, the Group entered into the following transactions with related parties:

		Group	
	Notes	2006	2005
		RMB'000	RMB'000
Sales of products to People's Food Group	(i)	**313,275**	202,564
Rental income from People's Food Group	(ii)	**302**	25
Supply of electricity from People's Food Group	(iii)	**32,552**	9,801

(i) The sales to People's Food Holdings Limited ("People's Food") and its subsidiaries (the "People's Food Group") were approximately RMB313,275,000 (2005: RMB202,564,000) for the year. People's Food is a beneficial shareholder of the Company. The sales were made with reference to the terms negotiated between the two parties.

(ii) During the year, the Group entered into two lease agreements with People's Food Group in respect of leasing two pieces of leasehold land from the Group for a period of 20 years with effect from 1 December 2005 for an aggregated annual lease income of approximately RMB302,000. The rental was made according to the terms of the lease agreements.

(iii) During the year, People's Food Group has supplied electricity to the Group. The charge was made with reference to the terms agreed between the two parties.

(b) Compensation of key management personnel

	Group	
	2006	2005
	RMB'000	RMB'000
Total remuneration of directors and other members of key management during the year		
– short-term employee benefits	**13,021**	1,038

25. DIRECTORS' REMUNERATION

For the year ended 31 December 2006, the remuneration of the directors of the Company analysed into the following bands is disclosed in compliance with paragraph 1207.11 of Chapter 12 of the Listing Manual of SGX-ST:

	Executive directors	Non–executive directors	Total
Below S$250,000 (equivalent to approximately RMB1,275,000)	2	3	5
S$500,000 and above (equivalent to approximately RMB2,550,000 and above)	1	–	1
Total	**3**	**3**	**6**

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the year, deposits of approximately RMB8,144,000 (2005: RMB7,220,000) paid in last year for the acquisition of property, plant and equipment were capitalised as property, plant and equipment.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Pine Agritech Limited (the "Company") will be held at Jubilee Lounge, Level 3, Raffles Hotel, 1 Beach Road, Singapore 189673 on Thursday, 26 April 2006 at 9.30 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the financial year ended 31 December 2006 together with the Auditors' Report thereon.
(Resolution 1)

2. To declare a Final Dividend of RMB0.036 per ordinary share for the financial year ended 31 December 2006.
(Resolution 2)

3. (a) To re-elect Mr Ming Kam Sing, a Director retiring pursuant to Bye-Law 104 of the Company's Bye-Laws.
(Resolution 3a)

   (b) To re-elect Mr Ong Tiong Seng, a Director retiring pursuant to Bye-Law 104 of the Company's Bye-Laws.
(Resolution 3b)

4. To re-elect Mr Zhou Yan'An, a Director retiring pursuant to Bye-Law 107(B) of the Company's Bye-Laws.
(Resolution 4)

5. To approve the payment of Directors' fees of S$150,000 for the financial year ending 31 December 2007, to be paid quarterly in arrears at S$37,500 per quarter.
(Resolution 5)

6. To re-appoint Messrs Grant Thornton, Certified Public Accountants, Hong Kong as the Company's Auditors and to authorise the Directors to fix their remuneration.
(Resolution 6)

7. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without modifications:

8. "That pursuant to the listing rules of the Singapore Exchange Securities Trading Limited ("SGX-ST") and notwithstanding the provisions of the Company's Bye-Laws, authority be and is hereby given to the Directors of the Company to:

   (1) a. issue shares in the capital of the Company (whether by way of rights, bonus or otherwise); and/or

   b. make or grant offers, agreements or options (collectively, "instruments") that may or would require shares to be issued, including but not limited to the creation and issue of warrants, debentures or other instruments convertible into shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

Notice of Annual General Meeting

(2) (notwithstanding that the authority conferred by paragraph (1) of this Resolution may have ceased to be in force) issue shares in pursuance of any instrument made or granted by the Directors while this Resolution was in force,

provided that:

a. the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of instruments made or granted pursuant to this Resolution) does not exceed 50% of the issued share capital of the Company (as calculated in accordance with sub-paragraph b. below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company (including shares to be issued in pursuance of instruments made or granted pursuant to this Resolution) does not exceed 20% of the issued share capital of the Company (as calculated in accordance with sub-paragraph b. below);

b. for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph a. above, the percentage of issued share capital shall be calculated based on the issued share capital of the Company at the time of the passing of this Resolution, after adjusting for:

(i) new shares arising from the conversion or exercise of any convertible securities;

(ii) new shares arising from exercise of share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; and

(iii) any subsequent consolidation or subdivision of shares;

c. in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Memorandum of Association and Bye-Laws for the time being of the Company; and

d. unless revoked or varied by the Company in general meeting, the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier." [See Explanatory Note (i)].

(Resolution 7)

9. "That the Directors of the Company be and are hereby authorised to offer and grant options in accordance with the provisions of the Pine Agritech Employee Share Option Scheme ("Scheme") and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of the options under the Scheme provided always that the aggregate number of shares to be issued pursuant to the Scheme shall not exceed fifteen per cent (15%) of the total issued share capital of the Company from time to time." [See Explanatory Note (ii)].

(Resolution 8)

10. "That for the purposes of Chapter 9 of the Listing Manual ("Chapter 9") of the SGX-ST:

(1) approval be and is hereby given for the Company, its subsidiaries and associated companies that are considered to be "entities at risk" under Chapter 9, or any of them, to enter into any of the transactions falling within the types of interested person transactions described in the Appendix to the Annual Report for the financial year 2006 (the "Appendix") with any party who is of the class of interested persons described in the Appendix, provided that such transactions are made on normal commercial terms and in accordance with the review procedures for such interested person transactions (the "Mandate");

Notice of Annual General Meeting

(2) the approval given in paragraph (1) above shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company; and

(3) the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary or in the interests of the Company to give effect to the Mandate and/or this Resolution." [See Explanatory Note (iii)].

(Resolution 9)

By Order of the Board

Ho Hin Yip
Secretary

Singapore, 4 April 2007

NOTICE OF BOOKS CLOSURE AND DATE OF PAYMENT OF FINAL DIVIDENDS

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of Pine Agritech Limited (the "Company") will be closed from 5.00 pm on 8 May 2007 for the purpose of determining members' entitlements to the final dividends.

Duly completed registrable transfers (in respect of shares not registered in the name of The Central Depository (Pte) Ltd) together with all relevant documents of title thereto received not later than 5.00 pm on 8 May 2007 by the Company's Singapore Share Transfer Agent, Lim Associates (Pte) Ltd at 3 Church Street, #08-01 Samsung Hub, Singapore 049483, will be registered in accordance with the Bye-Laws of the Company to determine members' entitlements to such dividends.

The proposed dividends, if approved at the Annual General Meeting to be held on 26 April 2007, will be paid on 21 May 2007.

Explanatory Notes:

(i) The Ordinary Resolution 7 proposed in item 8. above, if passed, is to empower the Directors to issue shares in the capital of the Company and/or instruments (as defined above). The aggregate number of shares to be issued pursuant to Resolution 7 (including shares to be issued in pursuance of instruments made or granted) shall not exceed 50 % of the issued share capital of the Company, with a sub-limit of 20% for shares issued other than on a pro rata basis (including shares to be issued in pursuance of instruments made or granted pursuant to this Resolution) to shareholders. For the purpose of determining the aggregate number of shares that may be issued, the percentage of issued share capital will be calculated based on the issued share capital of the Company at the time of the passing of Resolution 7, after adjusting for (a) new shares arising from the conversion or exercise of any convertible securities; (b) new shares arising from exercise of share options or vesting of share awards outstanding or subsisting at the time of the passing of Resolution 7, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; and (c) any subsequent consolidation or subdivision of shares.

(ii) The Ordinary Resolution 8 proposed in item 9. above, if passed, is to authorise the Directors to offer and grant options in accordance with the provisions of the Pine Agritech Employee Share Option Scheme ("Scheme") and to allot and issue shares under the Scheme up to an amount not exceeding 15% of the total issued ordinary share capital of the Company from time to time.

(iii) The Ordinary Resolution 9 proposed in item 10. above, if passed, is to empower the Directors of the Company to continue to enter into interested person transactions, on the Group's normal commercial terms and in accordance with the guidelines and procedures of the Company for interested person transactions as described in the Appendix to Shareholders dated 4 April 2007. This authority will continue in force until the next Annual General Meeting.

Notice of Annual General Meeting

Notes:

1. If a shareholder being a Depositor (who is not a natural person) whose name appears in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore) wishes to attend and vote at the Annual General Meeting, then it should complete the Proxy Form and deposit the duly completed Proxy Form at the office of the Singapore Share Transfer Agent, Lim Associates (Pte) Ltd, at 3 Church Street, #08-01 Samsung Hub, Singapore 049483, at least 48 hours before the time of the Annual General Meeting. A Depositor who is a natural person need not complete the Proxy Form if he/she intends to attend in person.

2. If a Depositor wishes to appoint a proxy/proxies, then the Proxy Form must be deposited at the office of the Singapore Share Transfer Agent, Lim Associates (Pte) Ltd, at 3 Church Street, #08-01 Samsung Hub, Singapore 049483, at least 48 hours before the time of the Annual General Meeting.

Statistics of Shareholdings

31 December 2006

Shareholders' Information as at 16 March 2007

Authorised Share Capital	:	S$5,000,000,000.00
Issued and fully paid-up capital	:	S$60,000,000.00
Class of shares	:	Ordinary shares of S$0.02 each with equal voting rights

Distribution of Shareholdings as at 16 March 2007

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1-999	6	0.25	1,537	0.00
1,000-10,000	1,249	51.70	9,308,998	0.31
10,001-1,000,000	1,129	46.73	67,562,000	2.25
1,000,001 and above	32	1.32	2,923,127,465	97.44
Total	**2,416**	**100.00**	**3,000,000,000**	**100.00**

Twenty Largest Shareholders

No.	Name	No. of Shares	%
1	Loampit Limited	1,102,500,000	36.75
2	UOB Kay Hian Pte Ltd	660,189,000	22.01
3	Citibank Nominees S'pore Pte Ltd	368,344,250	12.28
4	Elite Union Corporation	292,500,000	9.75
5	Raffles Nominees Pte Ltd	164,020,465	5.47
6	Morgan Stanley Asia (S'pore) Securities Pte Ltd	106,661,750	3.56
7	DBS Nominees Pte Ltd	67,295,000	2.24
8	OCBC Securities Private Ltd	24,665,000	0.82
9	HSBC (Singapore) Nominees Pte Ltd	19,938,000	0.66
10	DBSN Services Pte Ltd	15,380,000	0.51
11	DB Nominess (S) Pte Ltd	14,550,000	0.49
12	Loh Kim Kang David	14,179,000	0.47
13	HL Bank Nominees (S) Pte Ltd	12,842,000	0.43
14	Kim Eng Securities Pte. Ltd.	11,765,000	0.39
15	DBS Vickers Securities (S) Pte Ltd	10,877,000	0.36
16	Phillip Securities Pte Ltd	4,421,000	0.15
17	United Overseas Bank Nominees Pte Ltd	3,968,000	0.13
18	Hong Leong Finance Nominees Pte Ltd	3,837,000	0.13
19	Lim & Tan Securities Pte Ltd	2,437,000	0.08
20	Boey Shook Fan Caroline	2,322,000	0.08
	Total	**2,902,691,465**	**96.76**

Statistics of Shareholdings

31 December 2006

Substantial Shareholders

(as defined under the Singapore Companies Act, Cap. 50)
As recorded in the Register of Substantial Shareholders

	Direct Interest		Deemed Interest	
	Number of Shares	**%**	**Number of Shares**	**%**
People's Food Holdings Limited[1] ("PFH")	–	–	1,102,500,000	36.75
Maleque Limited[1]	–	–	1,102,500,000	36.75
Elite Union Corporation[2]	292,500,000	9.75	–	–
Loampit Limited[3]	1,102,500,000	36.75	–	–

Notes:-

(1) Ming Kam Sing is appointed to the board of the Company as a nominee director of PFH. He is also the Chairman and Executive Director of PFH. Ming Kam Sing holds 65% interest in Maleque Limited which holds 46.41% of PFH. PFH holds the entire interest of our substantial shareholder, Loampit Limited.

(2) Elite Union is a company incorporated in the BVI and is wholly-owned by Li Zhuping, the Company's Chief Executive Officer. Li Zhuping is deemed to have an interest in all the Shares held by Elite Union Corporation.

(3) Loampit Limited, a company incorporated in the BVI and is wholly-owned by PFH, a company which shares are listed on the SGX-ST and the Stock Exchange of Hong Kong Limited. PFH is deemed to have an interest in all the Shares held by Loampit Limited.

Percentage of Shareholding in Public's Hands

53.5% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

Pine Agritech Limited

Pine Agritech Limited
Jinluo High Technology Park, Lanshan District,
Linyi City, Shandong Province, PRC 276036
Tel. (86) 539 297 7593
Fax. (86) 539 297 7259
www.pineagritechlimited.com

Company Registration No. 35792