

Yang Yang China Holdings Limited

ACN 109 469 383

Annual Report 2005

Yang Yang China Holdings Ltd

Annual Financial Report
for the Financial Year Ended
30 June 2005

Contents

| | Page |
|--|------|
| Company Particulars..... | 3 |
| Chairman's Report | 4 |
| Directors' Report | 5 |
| Corporate governance | 9 |
| Statement of Financial Performance..... | 16 |
| Directors' Declaration | 31 |
| Newcastle Stock Exchange Information | 32 |

Company Particulars

Yang Yang China Holdings Limited

| | | |
|-------------------------------|--|--------------------------------|
| Directors | Ms Yang Liu | Chairman and Managing Director |
| | Professor King Yin Liu | Executive Director |
| | Mr Xiao Bo Zhou | Non-Executive Director |
| | Mr Colin Archer | Non-Executive Director |
| | Professor Feng Jin | Non-Executive Director |
| | Mr Michael Matchett | Non-Executive Director |
| Registered Office | Suite 545, 5 th Floor, Edgecliff Centre, 203-233 New South Head Road, Edgecliff, NSW 2027, Australia | |
| Telephone | (02) 9327 7373 Fax (02) 9327 4908 | |
| Auditors | Rothsay Chartered Accountants Level 1, 2 Barrack Street Sydney NSW 2000 | |
| Bankers | Commonwealth Bank of Australia Waverley NSW 2075 | |
| Solicitors | Whittens Lawyers and Consultants Level 30, Piccadilly Tower 133 Castlereagh Street Sydney NSW 2000 | |
| Share Register | Newcastle Capital Registries Pty Limited 10 Murray Street, Hamilton NSW 2303 | |
| Stock Exchange Listing | Yang Yang China Holdings Limited shares are listed on the Newcastle Stock Exchange (NSX) - Code YYC. The Newcastle Stock Exchange code for the Options is YYCO. | |
| NSX Facilitator | SIBCO Australia Pty Limited Suite 545, 5 th Floor, Edgecliff Centre, 203-233 New South Head Road, Edgecliff, NSW 2027, Australia | |
| Annual General Meeting | The annual general meeting of Yang Yang China Holdings Limited will be held in Guangzhou, China on the following date (refer to Notice of Meeting). Time 11:00 am (China Time) Date 20 November 2005 | |

Chairman's Report

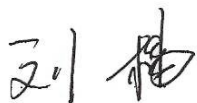
The 2004-2005 has been a year of establishment, looking forward rather than back. Efforts were focused on getting the company established as an Australian entity and setting the foundation of an expansion into the international market.

Although our listing on the Newcastle Stock Exchange did not result in high volume share sales, we believe that the reason for this is that the product is unknown in this market and this has bred uncertainty concerning the prospects for the company's future.

We have taken action to redress this negative element by moving to establish a demonstration piggery based on our product which will show the transition from a poorly performing farm to a gleaming example of what can be achieved with "LETU". The demonstration farm will become the site for piggery "open days" and it is expected that the pig farming community in Australia will be suitably impressed with the result.

In addition to the demonstration piggery, we propose to explore the benefits that Carbon Credits can be available as an additional positive result financial result because of the significant ecological advantage the adoption of our product provides.

I look forward to consolidating the company's position in the marketplace during the next twelve months.



Ms Yang Liu

Chairman and Managing Director

Directors' Report

30 June 2005

Your directors present their report on the consolidated entity consisting of Yang Yang China Holdings Limited ("YYC") and the entities it controlled at the end of, or during the year ended 30 June 2005

Directors

The following persons were directors of Yang Yang China Holdings Limited for financial year ending 30/06/05:

Ms. Yang Liu, Professor King Yin Liu, Mr Xiao Bo Zhou, Mr Colin Archer, Professor Feng Jin, Mr Michael Matchett.

The Board accepted the resignation of Mr Xiao Bo Zhou as a Director of Yang Yang China Holdings Limited on 22nd August 2005.

Information on Directors in office during the year

| | |
|------------------------|---|
| Ms Yang Liu | <u>Chairman and Managing Director.</u> Appointed a director on 9 th June 2004, Ms Liu resides in China and is responsible for overseeing and implementation of all Board strategies and directives. She is founder of the Guangdong JBC Biological Company Ltd. Ms Liu is a graduate student in Law. |
| Professor King Yin Liu | <u>Executive Director</u> Appointed a director on 26/11/04, Prof Liu resides in China and is responsible for the development and implementation of marketing and sales strategies. Professor Liu has a Personnel Management Degree from CSU, Sacramento, USA, an MSc in International Business from UBC, Canada. |
| Mr Xiao Bo Zhou | <u>Non-Executive Director</u> Appointed a director on 26 November 2004, Mr Zhou resides in China. He is Chief Representative for Ministry of Commerce for the Peoples Republic of China, China International Electronic Commerce Centre Guangdong Branch. Mr Zhou graduated from the Department of Automation from Sth China Uni of Technology. |
| Mr Colin Archer | <u>Non-Executive Director</u> Appointed a director on 9 June 2004, Mr Archer is an Associate of Business Administration, Graduate and Past Fellow of the Company Directors Association, and Honorary Chairman of the Technology in Government Committee. Mr Archer resides in Australia and is CEO of APEC Group Ltd. Mr Archer is also a Director of SIBCO Australia Pty Ltd. |
| Professor Feng Jin | <u>Non-Executive Director</u> Appointed a director on 26 November 2004, Professor Jin resides in China where he is Head of the Laboratory for human and animal genetic studies and Developmental Biology. He has a Master Degree and Doctorate in Anthropology and Human Genetics from Department of Anthropology, Faculty of Science, University of Tokyo, Japan. Professor Jin obtained 4 professorships for Life Science College of Inner Mongolia Normal University. |
| Mr Michael Matchett | <u>Non-Executive Director</u> Appointed a director on 26 November 2004, Mr Matchett is Secretary to the Technology in Government Committee. He resides in Australia and is Managing Director of National Technology Enterprises Pty Ltd. |

Yang Yang China Holdings Limited and its controlled entities

A.C.N. 109 469 383

The Directors attendances at Directors' meetings held during the year were;

The number of shares and options in the Company in which each director, at the date of this report, has a relevant interest are:

| | No Attended | No Held* | Ordinary Shares held directly** | Indirectly** | Options** |
|------------------------|----------------|-------------|---------------------------------------|--------------|-------------|
| Ms Yang Liu | 7 | 7 | 128,750,000 | - | 128,750,000 |
| Professor King Yin Liu | 7 | 7 | - | - | - |
| Mr Xiao Bo Zhou | 7 | 7 | 11,250,000 | - | 11,250,000 |
| Mr Colin Archer | 7 | 7 | - | 1,750,000 | 1,750,000 |
| Professor Feng Jin | 7 | 7 | - | - | - |
| Mr Michael Matchett | 7 | 7 | - | - | - |

*Reflects the maximum number of meetings each director was eligible to attend

**As at the date of this report

Due to dispersed locations of board members, board meetings were held either in person or by means of conference telephone communication via landline or Internet.

Retirement, Election and Continuation in Office of Directors

The Board accepted Mr Xiao Bo Zhou's resignation as a director on 22 August 2005.

Company Secretary

Mr Peter O'Keefe, CPA, was appointed Company Secretary on 9 June 2004. He resigned on 19 September 2005. Mr Colin Archer was appointed as Company Secretary on 19 September 2005.

Principal Activities

The principal activity of the Company during the year was its listing on the NSX and the development of the Market for its product, LETU.

Operating Results

The consolidated loss of the economic entity after providing for income tax and eliminating outside equity interests amounted to \$(

Dividends Yang Yang China Holdings Limited

No dividends were paid or recommended for payment during or since the end of the financial year

Review of Operations

World Health authorities agree that the inclusion of anti-biotic, growth hormones and other synthetic products in animal food stocks are detrimental to the food chain and therefore humans. Many countries have already moved to ban the use of such additives meaning farmers must find other ways to economically produce stock.

Guangdong JBC Biological Co Ltd (JBC) had developed and had fully tested a business model for pig farming that results in chemical free pork products. Farmers are trained and licensed to grow "LETU" branded pigs

Yang Yang China Holdings Limited and its controlled entities

A.C.N. 109 469 383

that are then purchased for resale as “Sakura” branded pork. The farmers must strictly adhere to the farming methods developed and this includes careful control of the food and unique natural food additives used.

The market acceptance and financial viability of this model has been proven by commercial scale trials with the result contracts for both farm licences and pork sales have been signed.

China with its 1.3 billion population consumes approximately 586 million pigs and 9 billion chickens each year. No one company can possibly hope to capture a market of this magnitude, however with an increase in wealth and health awareness, demand for chemical free meat is strong and growing. In this regard we at Yang Yang have qualified and quantified a real and immediate market segment equal to 70 million pigs.

As phase one of full-scale commercialisation, it is JBC’s objective to capture a market share of 200,000 pigs and in doing so clearly establish “Sakura” pork as a leading “quality” branded product.

Realising the value of JBC, Yang Yang needed to purchase JBC for US\$35,000,000. More capital became a requirement. Yang Yang China Holdings Limited was listed on the Newcastle Stock Exchange (NSX) with first shares traded on 7 September 2005. Total shares on issue were for 180,456,000 shares at \$0.20 cents and 180,456,000 options at \$0.00.

Yang Yang is now positioning itself as a leader in the changes now sweeping the globe in the field of high intensity farming. The challenge is the elimination of harmful chemical residues within food with resultant health and environmental damage, while at the same time producing the volume required to feed the market demand.

The Directors report a loss at the end of financial year 2005 of \$(34,965,456)

| | |
|---------------------------------|---------------|
| | 2005 Cents |
| Basic Earnings/(Loss) per share | (1.9) |

Significant Changes in the State of Affairs

Since the balance date the following events have occurred:

The acquisition of Guangdong JBC Biological Co Ltd has been completed and the value of the acquisition (\$35 million) has been written off to satisfy international corporate accounting standards. The Paid Up Capital of the company is \$36,035,200 and ownership of JBC is secure. Refer to the Accounts related to write-offs.

Likely Developments and Expected Results of Operations

The directors consider that the cash reserves of the company at the time of signing this report are sufficient to enable the consolidated entity to pursue current opportunities. Disclosure of additional information regarding likely developments in the operations and expected results is likely to result in unreasonable prejudice to the company.

Environmental Regulations

The company’s operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory

Directors and Executive Emoluments

The Board of Directors decides the remuneration and terms of employment for executive directors, non-executive directors and other senior executives.

Remuneration packages are set at levels intended to attract and retain executives capable of managing the consolidated entity’s operations. It is the Board’s intention that all executive directors and executives terms of employment be formalised in service agreements.

The Board within the maximum amount approved by the shareholders from time to time determines remuneration of non-executive directors.

Yang Yang China Holdings Limited and its controlled entities

A.C.N. 109 469 383

Directors of Yang Yang China Holdings Limited: -

As a result of the time taken to list the company, the company has been keeping a very tight rein on finances. As a result, no Directors have drawn any remuneration in the reporting period to 30 June 2005. Ms Liu in her capacity of Chairman and Managing Director has supplied her services free of charge.

| Name | Salary | Directors Fee | Superannuation | Other Benefits | Options | Total |
|--|--------|---------------|----------------|----------------|---------|-------|
| Ms Yang Liu | - | - | - | - | - | - |
| Prof. King Yin Liu | - | - | - | - | - | - |
| Mr Zhao Xiao Bo (to 22 August 2005) | - | - | - | - | - | - |
| Mr Colin Archer | - | - | - | - | - | - |
| Prof. Feng Jin | - | - | - | - | - | - |
| Mr Michael Matchett | - | - | - | - | - | - |

Officers of Yang Yang China Holdings Limited:

Officers of Yang Yang China Holdings Limited, in the same situation as the Directors, have not drawn any remuneration in the reporting period to 30 June 2005.

| Name | Base Salary | Motor Vehicle | Superannuation | Other Benefits | Options | Total |
|---|-------------|---------------|----------------|----------------|---------|-------|
| Mr Colin Archer <i>Company Secretary</i> | - | - | - | - | - | - |

Options that were granted over un-issued shares or interest during or since the financial year by the company to directors or any of the five most highly remunerated officers as part of their remuneration are as follows:

| Director | Number of options |
|-----------------|-------------------|
| Ms Yang Liu | 128,750,000 |
| Mr Xiao Bo Zhou | 11,250,000 |
| Mr Colin Archer | 1,750,000 |
| Total | 141,750,000 |

The Directors' Options, if not exercised, expire on 31 December 2009

Based on the history of the market price of shares together with the negative net tangible assets of the Group when compared to the exercise price of options and exercise terms, the directors consider that options have nil value at the date of this Report.

Indemnifying Officers or Auditors

During or since the end of the financial year, the Company has not, in respect of any person who is or has been an officer or auditor of the company or a related body corporate:

- Indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, other than costs and expenses of successfully defending legal proceedings; or

- Paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings

Signed in accordance with a resolution of the directors made pursuant to sE298 (2) of the Corporations Act 2001

On behalf of the Directors



Yang Liu – Director Dated 30 September 2005

Corporate Governance

1 Our approach to corporate governance

1a) Framework and approach to corporate governance and responsibility

The Board of Yang Yang China Holdings Limited is committed to maintaining the highest standards of corporate governance.

Corporate governance is about having a set of values that underpin the company's everyday activities - values that ensure fair dealing, transparency of actions, and protect the interests of stakeholders. The Board considers corporate governance forms part of a broader framework of corporate responsibility and regulatory oversight. Corporate integrity is under question globally; a genuine commitment to good governance is fundamental to the sustainability of our business and its performance.

In pursuing its commitment to best practice governance standards, the Board will continue to:

- * review and improve its governance practices; and
- * monitor global developments in host practice corporate governance.

The Board's approach has been to be guided by the principles and practices that are in our stakeholders' host interests while ensuring full compliance with legal requirements. The best practice guidelines of the Newcastle Stock Exchange Limited ("NSX"), Yang Yang's home exchange, have been adopted as the minimum baseline for our governance practices.

In the reporting period, Yang Yang China Holdings Limited has acquired an overseas subsidiary, Guangdong JBC biological Company Ltd.

1(b) Compliance with the NSX best practice recommendations

The NSX Listing Rules require listed companies to include in their Annual Report a statement disclosing the extent to which they have followed the NSX best practice recommendations in the reporting period.

Listed companies must identify the recommendations that have not been followed and provide reasons for the company's decision,

This Governance Statement describes Yang Yang's governance practices and notes where they do not comply with the NSX best practice recommendations. A checklist summarising compliance is provided at the end of this Governance Statement

2 Date of this statement

This statement reflects our corporate governance policies and procedures as at 30 June 2005.

Yang Yang China Holdings Limited and its controlled entities

A.C.N. 109 469 383

3. The Board of Directors

3a) Membership and expertise of the Board

The Board has a broad range of relevant financial and other skills, experience and expertise to meet its objectives. The current Board composition, with details of individual Director's backgrounds, is set out below.

| | Director & Chairman | Director | Director | Director | Director | Director |
|------------------------------------|---|---|--|--|---|---|
| Name: | Ms Yang Liu | Prof. King Yin Liu | Mr Xiao Bo Zhou | Mr Colin Archer | Prof Feng Jin | Mr Michael Matchett |
| Age | 41 | 55 | 41 | 57 | 49 | 58 |
| Term or office | Director since June 2003. Chairman since June 2004. | Director since November 2004. | Director since November 2004 | Director since June 2004 | Director since November 2004 | Director since November 2004 |
| Independent External Directorships | No | No | Yes | No | Yes | Yes |
| | | Marketing Lecturer at University of Sydney, Hong Kong Campus. | Chief Representative for Ministry of Commerce for the Peoples Republic of China, China International Electronic Commerce Centre Guangdong Branch | APEC Group Pty Ltd, APEC Logic Investments Pty Ltd, SIBCO Australia Pty Ltd, Logic International Investments Pty Ltd, Logic International Holdings Pte Ltd | Head of the Laboratory for Human and Animal Genetic Studies and Developmental Biology | National Technology Enterprises Pty Ltd |
| Skills, experience and expertise | Business development | Marketing and Sales | Management, Government, Commerce | Management, Government, Entrepreneur, International Businessman, Specialist in establishing business in China. | Genetics | Management and Sales |

Corporate Governance

3b) Board role and responsibility

The Board is accountable to shareholders for Yang Yang's performance.

In summary, the Board's responsibilities include:

- * providing strategic direction and approving corporate strategic initiatives;
- * planning for Board and executive succession;
- * selecting and evaluating future Directors, the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), if and when appointed,
- * setting CEO and Director remuneration within shareholder approved limits;
- * approving budget and monitoring management and financial performance;
- * considering and approving Annual Financial Report (including the Directors' Declaration) and the interim and final financial statements);
- * approving Yang Yang's risk management strategy monitoring its effectiveness and maintaining a direct and ongoing dialogue with Yang Yang's auditors and regulators; and
- * considering and reviewing the social and ethical impact of Yang Yang's activities, setting standards for social and ethical practices and monitoring compliance with Yang Yang's social responsibility policies and practices.

The Board has delegated to management responsibility for:

- * developing and implementing corporate strategies and making recommendations on significant corporate strategic initiatives;
- * maintaining an effective risk management framework and keeping the Board and market fully informed about material risks;
- * developing Yang Yang's annual budget, recommending it to the Board for approval and managing day-to-day operations within the budget; and
- * managing day-to-day operations in accordance with standards for social and ethical practices which have been set by the Board.

3c) Board size and composition

The Board determines its size and composition, subject to the limits imposed by Yang Yang's Constitution. The Constitution requires a minimum of three and a maximum of 10 Directors. In addition, at least two of the Directors shall ordinarily reside within Australia.

3d) The selection and role of the Chairman

The Chairman is selected by the Board.

The Chairman's role includes:

- * providing affective leadership on formulating the Board's strategy;
- * representing the views of the Board to the public;
- * ensuring that, when all Board members take office, they are fully briefed on the terms of their appointment, their duties and responsibilities;
- * ensuring that the Board meets at regular intervals throughout the year, and that minutes of meetings accurately record decisions taken and, where appropriate, the views of individual Directors;
- * guiding the agenda and conduct of all Board meetings; and
- * reviewing the performance of Board Directors.

The current Chairman, Ms Yang Liu, is a Director appointed by the Board. She has been a Director of Yang Yang since June 2004 and Chairman since June 2004. She was the founder of the company JBC Biological Co Limited in Guangdong.

3e) Directors' independence

The Board assesses each of the Directors against specific criteria to decide whether they are in a position to exercise Independent judgement. Directors are considered to be independent if they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement. Materiality is assessed on a case-by-case basis by reference to each Director's individual

circumstances rather than general materiality thresholds. In assessing independence, the Board considers whether the Director has a business or other relationship with Yang Yang, either directly, or as a partner, shareholder or officer of a company or other entity that has an interest, or a business or other relationship, with Yang Yang or another Yang Yang China Holdings member. It is the Board's view that each of its Non-executive Directors is independent. Yang Yang currently has no executive directors.

3f) Avoidance of conflicts of interest by a Director

In accordance with the Corporations Act 2001, any Director with a material personal interest in a matter being considered by the Board must not be present when the matter is being considered and may not vote on the matter.

3g) Meetings of the Board and their conduct

The Board meets normally at least four times a year. In addition it meets whenever necessary to deal with specific matters needing attention between the scheduled meetings. This year the full Board has met seven times. The Chairman and the Company Secretary establish meeting agendas to ensure adequate coverage of financial, strategic and major risk areas throughout the year. The Directors and Company Secretary also maintain informal communications via email and phone.

3h) Succession planning

The Board plans succession of its own members taking into account the skills, experience and expertise required and currently represented and Yang Yang's future direction. The Board is also responsible for CEO and CFO succession planning (if appointed).

3i) Review of Board performance

The Board reviews its overall performance, as well as the performance of individual Directors. The performance of Non-executive Directors (including the Chairman) is subject to annual peer review.

3j) Nomination and appointment of new Directors

Recommendations for nominations of new Directors are made by the Board as a whole. Those nominated are assessed by the Board against a range of criteria including background, experience, professional skills, personal qualities, whether their skills and experience will augment the existing Board and their availability to commit themselves to the Board's activities. If the Board appoints a new Director during the year, that person will stand for election by shareholders at the next annual general meeting. Shareholders are provided with relevant information on the candidates for election.

3k) Retirement and re-election of Directors

Yang Yang's Constitution states that one-third of our Directors must retire each year. The maximum time that each Director can serve in any single term is three years. Any Director who has been appointed during the year must retire at the next annual general meeting. Eligible Directors who retire each year may offer themselves for re-election by shareholders at the next annual general meeting.

3l) Compulsory retirement of Directors

The Board has no limit on the number of terms of office which any Director may serve.

3m) Board access to information and advice

All Directors have unrestricted access to company records and information and receive regular detailed financial and operational reports. Yang Yang China Holdings Limited Company Secretary provides Directors with ongoing guidance on issues such as corporate governance, Yang Yang's Constitution and the law. The Board collectively, and each Director individually, has the right to seek independent professional advice at Yang Yang's expense to help them carry out their responsibilities. While the Chairman's prior approval is needed, it may not be unreasonably withheld and, in its absence, Board approval may be sought.

4 Board committees

4a) Board committees and membership

There are currently no Board Committees. Yang Yang's size and operations do not allow for separate Board Committees. All issues are considered by all the Directors, unless a Director is unable to exercise independence. Yang Yang does not comply with NSX recommendations on these issues-

4b) Audit Committee

Yang Yang does not have an Audit Committee; it does not comply with this recommendation

4c) Board Risk Oversight Committee

Yang Yang does not have a Board Risk Oversight Committee; it does not comply with this recommendation

4d) Board Nominations Committee

Yang Yang does not have a Board Nominations Committee and any appointment would be considered by all directors. It does not comply with this recommendation

4e) Board Remuneration Committee

Yang Yang does not have a Board Remuneration Committee. It does intend to form one when Directors begin to receive monetary benefits. In the future, Directors will be paid a fixed remuneration for attending Board meetings, and allowed to claim for out-of-pocket expenses and any time spent on special issues. In the reporting period to 30 June 2005, there are no payments to Directors.

5 Audit governance and independence

5a) Approach to audit governance

The Board is committed to three basic principles:

- * Yang Yang must produce true and fair financial reports;
- * its accounting methods are comprehensive and relevant and comply with applicable accounting rules and policies; and
- * the external auditors are independent and serve shareholder interests by ensuring that shareholders know Yang Yang's true financial position

5b) Engagement and rotation of external auditor

Yang Yang's independent external auditor is Rothsay Consulting Services Pty Ltd.

5c) Discussions with external auditor on Independence

The Board Audit and Compliance Committee require the external auditor to confirm that they have maintained their independence.

5d) Relationship with external auditor

Yang Yang's current policies on employment and other relationships with our external auditor are:

- * the audit partners and any audit firm employee on the Yang Yang audit are prohibited from being an officer
- * an immediate family member of an audit partner or any audit firm employee on the Yang Yang audit is prohibited from being a Director or an officer in a significant position at Yang Yang;
- * a former audit firm partner or employee on the Yang Yang audit is prohibited from becoming a Director or officer in a significant position at Yang Yang for at least five years and after the five years can have no continuing financial relationship with the audit firm;
- * members of the audit team and firm are prohibited from having a business relationship with Yang Yang or any officer of Yang Yang unless the relationship is clearly insignificant to both parties;
- * the audit firm its partners its employees on the Yang Yang audit and their immediate family members are prohibited from having a direct or material indirect investment in Yang Yang;
- * officers of Yang Yang are prohibited from receiving any remuneration from the audit firm;

- * the audit firm is prohibited from having a financial interest in any entity with a controlling interest in Yang Yang; and
- * the audit firm engagement team in any given year cannot include a person who had been an officer of Yang Yang during that year

5e) Restrictions on non-audit services by the external auditor

The external auditor is not restricted in the provision of non-audit services to Yang Yang except as required by the Corporations Act or the NSX Listing Rules

5f) Attendance at Annual General Meeting

Yang Yang's external auditor attends the annual general meeting and is available to answer shareholder questions

6 *Controlling and managing risk*

6a) Approach to risk management

Taking and managing risk are central to business and to building shareholder value. Yang Yang's approach is to identify, assess and control the risks which affect its business. The intention is to enable risks to be balanced against appropriate rewards. The risk management approach links Yang Yang's vision and values, objectives and strategies, and procedures and training

6b) Risk management roles and responsibilities

The Board is responsible for approving and reviewing Yang Yang's risk management strategy and policy. The Company Secretary is responsible for implementing the Board-approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of Yang Yang activities.

6c) Company Secretarial assurance

The Board receives regular reports about the financial condition and operational results of Yang Yang and its controlled entities. The Company Secretary periodically provides formal statements to the Board that in all material respects:

- the company's financial statements present a true and fair view of Yang Yang's financial condition and operational results, and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

7 *Remuneration framework*

Yang Yang does not pay its Non-Executive Directors a fixed remuneration. These Officers can claim reimbursement of out-of-pocket expenses incurred on behalf of Yang Yang and time spent on specific issues. The Company Secretary is paid for all his time on an hourly basis. Directors are only paid for work additional to their general duties. The Directors are committed to minimising outgoings while examining future business options for Yang Yang.

8 *Corporate responsibility and sustainability*

8a) Yang Yang's approach to corporate responsibility and sustainability

Yang Yang's aim is to manage its business in a way that produces positive outcomes for all stakeholders and maximises economic, social and environmental value simultaneously. In doing so, Yang Yang accepts that the responsibilities flowing from this go beyond both strict legal obligations and just the financial bottom line. Transparency, the desire for fair dealing, and positive links into the community underpin our everyday activities and corporate responsibility practices.

8b) Yang Yang's Code of Conduct

Yang Yang's Code of Conduct applies to all Directors, executives and employees without exception. The

Code governs workplace and human resource practices, risk management and legal compliance, and is aligned to Yang Yang's core values of teamwork, integrity and performance. The Code is reviewed periodically and has been specifically reviewed to reflect the NSX best practice recommendations.

8c) Insider trading policy and trading in Yang Yang shares

Both Directors and employees of a Corporation are subject to restrictions under the law relating to dealing in certain financial products, including securities in a company (including Yang Yang), if they are in possession of inside information,

Inside information is information that is not generally available and, if it were generally available, a reasonable person would expect it to have a material effect on the price or value of the securities of the company.

8d) Market disclosure policy and practices

The Company Secretary has responsibility for ensuring compliance with the continuous disclosure requirements in the NSX Listing Rules, and overseeing and co-ordinating information disclosure to the NSX, analysts, brokers, shareholders, the media, and the public.

Yang Yang is committed to giving all shareholders comprehensive and equal access to information about our activities, and to fulfil continuous disclosure obligations to the broader market. Yang Yang policy is designed to ensure compliance with NSX Listing Rules on continuous disclosure requirements. It ensures any information that a reasonable person would expect to have a material effect on the price of Yang Yang's securities is disclosed.

Statement of Financial Performance

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2005

| | Note | Economic Entity | | Company | |
|---|------|---------------------|----------|---------------------|----------|
| | | 2005 | 2004 | 2005 | 2004 |
| | | \$ | \$ | \$ | \$ |
| Sales Revenue | | 567,342 | - | - | - |
| Other revenue | | 105,053 | - | - | - |
| Total revenue | 2 | 672,395 | - | - | - |
| Direct costs of production | | (494,820) | - | - | - |
| NSX Listing costs | | (302,402) | - | (302,402) | - |
| Auditors' remuneration | | | | | |
| - audit fees | | (5,000) | - | (5,000) | - |
| - other services | | - | - | - | - |
| Consultants | | (87,564) | - | (87,564) | - |
| Depreciation | | (6,045) | - | - | - |
| Directors' fees | | - | - | - | - |
| Amortisation R&D | | (230,601) | - | - | - |
| Excess of assets acquired over investment | | (34,026,830) | - | - | - |
| Write-off investment in subsidiary | | - | - | (34,998,000) | - |
| Other expenses | | (484,589) | - | (30,555) | - |
| Total Expenses | | (35,637,851) | - | (35,423,521) | - |
| Profit (loss) from ordinary activities before related income tax expense | | (34,965,456) | - | (35,423,521) | - |
| Income tax expense | 3 | - | - | - | - |
| Profit (loss) from ordinary activities after related income tax expense | | (34,965,456) | - | (35,423,521) | - |
| Net Loss attributable to members of Yang Yang China Holdings Ltd | | (34,965,456) | - | (35,423,521) | - |
| Accumulated losses at beginning of financial year | | - | - | - | - |
| Accumulated profits of subsidiary in opening balance now written back on disposal | | - | - | - | - |
| Accumulated losses at end of financial year | | (34,965,456) | - | (35,423,521) | - |
| Earnings per share – basic | 16 | (1.9) | - | (1.9) | - |

Yang Yang China Holdings Limited and its controlled entities

A.C.N. 109 469 383

The accompanying notes form part of this report

STATEMENT OF FINANCIAL POSITION

as at 30 June 2005

| | Note | Economic Entity | | Company | |
|-----------------------------------|------|------------------|--------------|---------------|--------------|
| | | 2005 | 2004 | 2005 | 2004 |
| | | \$ | \$ | \$ | \$ |
| Cash | 14 | 74,881 | 2,000 | 47,766 | 2,000 |
| Receivables | 4 | 309,155 | - | 35,713 | - |
| Inventories | 5 | 247,820 | - | - | - |
| Total Current Assets | | 631,856 | 2,000 | 83,479 | 2,000 |
| Plant & equipment | 6 | 33,950 | - | - | - |
| Investment in subsidiary | 7 | - | - | - | - |
| Intangibles | 8 | 3,736,437 | - | - | - |
| Total Non-Current Assets | | 3,770,387 | - | - | - |
| TOTAL ASSETS | | 4,402,243 | 2,000 | 83,479 | 2,000 |
| Creditors and borrowings | 9 | 3,863,699 | - | 3,000 | - |
| Total Current Liabilities | | 3,863,699 | - | 3,000 | - |
| TOTAL LIABILITIES | | 3,863,699 | - | 3,000 | - |
| NET ASSETS | | 538,544 | 2,000 | 80,479 | 2,000 |
| Share capital | 10 | 35,504,000 | 2,000 | 35,504,000 | 2,000 |
| Accumulated losses | | (34,965,456) | - | (35,423,521) | - |
| TOTAL SHAREHOLDERS' EQUITY | | 538,544 | 2,000 | 80,479 | 2,000 |

The accompanying notes form part of this report

STATEMENT OF CASH FLOWS

for the year ended 30 June 2005

| | Note | Economic Entity | | Company | |
|--|------|------------------|--------------|-----------------|--------------|
| | | 2005 | 2004 | 2005 | 2004 |
| | | \$ | \$ | \$ | \$ |
| Cash flows from operating activities | | | | | |
| Cash receipts in ordinary course of operations (inclusive of goods and services tax) | | 567,342 | - | - | - |
| Government subsidy | | 104,839 | - | - | - |
| Interest received | | 214 | - | - | - |
| Payments to suppliers (inclusive of goods and services tax) | | (300,954) | - | (30,555) | - |
| Net cash from operating activities | 15 | 371,441 | - | (30,555) | - |
| Cash flows from investing activities | | | | | |
| Purchase of property, plant and equipment | | - | - | - | - |
| Loan to subsidiary | | - | - | - | - |
| Research & development expenditure | | (295,120) | - | - | - |
| Purchase of investments | | - | - | - | - |
| Net cash from investing activities | | (295,120) | - | - | - |
| Cash flows from financing activities | | | | | |
| Proceeds from issue of shares | | 504,000 | 2,000 | 504,000 | 2,000 |
| Payment of NSX listing costs & consultants | | (427,679) | - | (427,679) | - |
| Net cash flow from financing activities | | 76,321 | 2,000 | 76,321 | 2,000 |
| Net (increase) decrease in cash held | | 72,881 | 2,000 | 45,766 | 2,000 |
| Cash at beginning of year | | 2,000 | - | 2,000 | - |
| Cash at the end of the financial year | 14 | 74,881 | 2,000 | 47,766 | 2,000 |

The accompanying notes form part of this report.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements are a general purpose financial report which has been prepared in accordance with applicable Accounting Standards, Urgent Issues Group Consensus Views, the Corporations Law and complies with other requirements of the law. The financial report has been prepared on the basis of historical costs and except where stated, do not take into account changing money values or current valuation of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Period

The Company was incorporated on the 9th June 2004 and did not trade during the period to 30th June 2004. The Company acquired all of the issued capital in Guangdong JBC Biological Co. Limited on 1

November 2004 and the consolidated statements account for transactions from the date of acquisition.

Set out below is a summary of the significant accounting policies adopted by the Company in the preparation of the financial report.

a) **Income Tax**

The Company adopts the liability method of tax effect accounting whereby the income tax expense in the profit and loss account is matched with the accounting profits after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation. Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit financial statements at the rates which are expected to apply when those timing differences reverse.

b) **Inventory**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises the purchase price and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition is calculated using the first in first out method.

Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of realisation and where appropriate the cost of conversion from their existing state to a finished condition.

c) **International Accounting Standards**

With regard to AASB 1047 Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards, the Company has instigated a continual review of International Accounting Standards and the effects they will have on the Company's future financial statements.

d) **Cash**

For purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day to day basis, net of outstanding temporary bank overdrafts.

e) **Foreign currency:**

Transactions in foreign currencies are converted to Australian dollars at the rate of exchange at the date of the transaction. At balance date, foreign monetary assets and liabilities including those of integrated foreign operations are translated at the closing rate, and exchange variations arising from those transactions are included in the Statement of Financial Performance.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

1. STATEMENT OF ACCOUNTING POLICIES

f) Plant & equipment

Plant and equipment is brought to account at cost or at independent or directors' valuation less, where applicable, any accumulated depreciation or amortisation. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not shown in the accounts at a value in excess of the recoverable amount from assets.

The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts. Office furniture and equipment is depreciated on a straight line method using these rates
Furniture & Fittings 25% Computers 50%

g) Intangible Research and Development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Costs incurred on development activities are capitalised if the product or process is technically and commercially feasible and the company has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and appropriate proportion of overheads. Development expenditure, after initial recognition, is carried at cost less any accumulated amortization. Other development costs are recognised in the income statement as an expense as incurred. Development costs previously recognised as expenses are not restated as an asset in a subsequent period.

h) Going Concern

The financial report has been prepared on a going concern basis which contemplates the continuity of business activities and the realisation of assets and the payment of liabilities in the ordinary course of business.

The Directors are currently reviewing capital raising options to raise working capital and to fund research and development projects. Monies due to a Director are not expected to be repaid within the next twelve months.

2. OPERATING REVENUE

Included in operating revenue are the following items

Revenue from sales of pigs

and pork products

Government subsidies

Interest received or due and receivable from other corporations

| Economic Entity | | Company | |
|-----------------|------|---------|------|
| 2005 | 2004 | 2005 | 2004 |
| \$ | \$ | \$ | \$ |

567,342

-

-

-

104,839

-

-

-

214

-

-

-

672,395

-

-

-

3. INCOME TAX

No income tax expense has been provided in the accounts because the company has an operating loss for the year. No future tax benefit attributable to tax losses has been brought to account as recovery is not certain or assured.

4. RECEIVABLES

Debtors

GST refundable

62,894

-

-

-

35,713

-

35,713

-

Yang Yang China Holdings Limited and its controlled entitiesA.C.N. 109 469 383

| | | | | | |
|----|--------------------------|----------------|--------|---------------|---|
| | Deposits and prepayments | 20,976 | | | |
| | Other receivables | 189,572 | - | - | - |
| | | 309,155 | 33,710 | 35,713 | - |
| 5. | INVENTORY | | | | |
| | Pigs and pig products | 247,820 | - | - | - |

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

| | Economic Entity | | Company | |
|--|------------------------|-------------|----------------|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$ | \$ | \$ | \$ |
| 6. PLANT AND EQUIPMENT | | | | |
| Plant & equipment – at cost | 67,888 | - | - | - |
| Less: Accumulated depreciation | (13,702) | - | - | - |
| Net carrying value | 33,950 | - | - | - |
| Reconciliation of carrying amount | | | | |
| Brought forward | - | - | - | - |
| Plant & equipment acquired during year | - | - | - | - |
| Plant & equipment of subsidiary acquired during year | 39,994 | - | - | - |
| Disposals | - | - | - | - |
| Depreciation during year | (6,044) | - | - | - |
| Carrying value at balance date | 33,950 | - | - | - |

7. INVESTMENT IN CONTROLLED ENTITIES

| Name | Country of Incorporation | Percentage of equity interest held by economic entity | |
|-------------------------------------|---------------------------------|--|-------------|
| | | 2005 | 2004 |
| Guangdong JBC Biological Co Ltd (a) | China | 100% | - |
| Investment | | | |
| Shares at cost | | 34,998,000 | - |
| Less: Write-down of investment | | (34,998,000) | - |
| | | - | - |

(a) Audited by Chan Chak Chung & Co (Hong Kong)

| | Company | |
|---|----------------|-------------|
| | 2005 | 2004 |
| | \$ | \$ |
| Contribution to group operating loss | | |
| Yang Yang China Holdings Ltd | 35,423,521 | - |
| Guangdong JBC Biological Co Ltd | (458,065) | - |
| | 34,965,456 | - |

All equity interests are in ordinary shares of the controlled entity.

| | Economic Entity | | Company | |
|--------------------------------------|------------------------|-------------|----------------|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$ | \$ | \$ | \$ |
| 8. RESEARCH & DEVELOPMENT | | | | |
| R&D acquired | 3,671,918 | - | - | - |
| Expenditure during year | 295,120 | - | - | - |
| Amortisation | (230,601) | - | - | - |
| Carrying value at end of year | 3,736,437 | - | - | - |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

9. CREDITORS AND BORROWINGS

Current

| | | | | |
|---------------------|------------------|----------|--------------|----------|
| Due to Director (a) | 2,477,833 | - | 3,000 | - |
| Accounts payable | 1,224,576 | - | - | - |
| Refundable deposit | 161,290 | - | - | - |
| | 3,863,699 | - | 3,000 | - |

- (a) These amounts whilst payable at call are unsecured, interest free and not expected to be repaid within the next twelve months

| | Number | 2005 \$ | Number | 2004 \$ |
|------------------------------------|--------------------|-------------------|---------------|--------------|
| 10. SHARE CAPITAL | | | | |
| Issued Capital | | | | |
| Balance at beginning of year | 10,000 | 2,000 | | |
| Placement | 2,800,000 | 504,000 | 10,000 | 2,000 |
| Acquisition of subsidiary (Note 7) | 174,990,000 | 34,998,000 | - | - |
| Balance at end of year | 177,792,000 | 35,504,000 | 10,000 | 2,000 |

The placement of 2,800,000 shares at 0.18 cents each raised an amount of \$504,000 which funds were utilised for working capital.

| | Number | 2005 \$ | Number | 2004 \$ |
|--------------------------|--------------------|------------|----------|------------|
| 10. SHARE CAPITAL | | | | |
| | - | - | - | - |
| | - | - | - | - |
| Issued during year | 177,790,000 | - | - | - |
| Expired during year | - | - | - | - |
| Balance at end of year | 177,790,000 | - | - | - |

On 1 November 2004 the company issued 174,990,000 free options exercisable at 30 cents each on or before 31 December 2009 pursuant to the acquisition of the subsidiary. On 5 November 2004 the company issued 2,800,000 free options exercisable at 30 cents each on or before 31 December 2009 pursuant to a capital raising.

11. SEGMENTAL INFORMATION

Yang Yang China Holdings Limited and its controlled entities

A.C.N. 109 469 383

The Company operates in the bio-tech research and development industry based in China with an administrative office in Australia

12. **RELATED PARTIES**

The names of each person holding the position of director during the financial year are Ms Liu Yang, Professors Liu King Yin and Feng Jin and Messrs Zhou Xiao Bo, Colin Archer and Michael Matchett.

All dealings are in the ordinary course of business and on normal commercial terms and conditions.

At the time of acquisition the Company acquired a Director related loan amounting to \$2,474,833 from Ms Liu Yang as detailed in Note 9.

13. **DIRECTORS REMUNERATION**

No remuneration was paid to Directors during the year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

14. RECONCILIATION OF CASH

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:

| | Economic Entity | | Company | |
|--------------------------|------------------------|-------------|----------------|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$ | \$ | \$ | \$ |
| Cash at bank and on hand | 74,881 | 2,000 | 47,766 | 2,000 |
| | 74,881 | 2,000 | 47,766 | 2,000 |

15. RECONCILIATION OF NET CASH OUTFLOW FROM OPERATING ACTIVITIES TO OPERATING LOSS AFTER INCOME TAX

| | Economic Entity | | Company | |
|---|------------------------|-------------|---------------------|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$ | \$ | \$ | \$ |
| Operating Profit (loss) | (34,965,456) | - | (35,423,521) | - |
| Add (less) non cash items | | | | |
| Amortisation of R&D | 230,601 | - | - | - |
| Depreciation | 6,045 | - | - | - |
| Excess of assets acquired of cost of investment | 34,026,830 | - | - | - |
| Write off investment | - | - | 34,998,000 | - |
| Decrease/increase in operating assets and liabilities: | | | | |
| Receivables | (309,155) | - | (35,713) | - |
| Inventory | (247,820) | - | - | - |
| Creditors & borrowings | 459,835 | - | 3,000 | - |
| Add (less) items classified as investing or financing activities: | | | | |
| NSX Listing costs & consultants | 427,679 | - | 427,679 | - |
| Net cash provided by operating activities | (371,441) | - | (30,555) | - |

16. EARNINGS PER SHARE ("EPS")

| | | |
|---|--------------------|--------|
| Basic earnings per share | \$(0.008) | \$- |
| Weighted average number of ordinary shares on issue used in calculation of basic earnings per share | 180,456,000 | 10,000 |
| Diluted earnings per share is not materially different from basic earnings per share | | |

17. AUDITORS' REMUNERATION

| | Economic Entity | | Company | |
|---|------------------------|-------------|----------------|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$ | \$ | \$ | \$ |
| Amount received or due and receivable by the auditor for: | | | | |
| a) Audit services | | | | |
| Chief entity auditor | 5,000 | - | 5,000 | - |
| Subsidiary company auditor | 5,000 | - | 5,000 | - |
| b) Other services | | | | |
| Income tax return preparation | - | - | - | - |
| Total remuneration of auditors | 10,000 | - | 10,000 | - |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

18. AUDITORS' REMUNERATION (Continued)

The Company has received notification from the Company's auditor that he satisfies the independence criterion and that there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct in relation to the audit. The Company is satisfied that the non-audit services provided is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

19. SUBSEQUENT EVENTS

In August 2005, the Company issued 2,666,000 fully paid ordinary shares at 20 cents together with 2,666,000 free options exercisable at 30 cents on or before 31 December 2009 pursuant to a prospectus.

The financial effects of the above subsequent events have not been disclosed in the financial statements.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of the Company, or the state of affairs of the Company in the financial year subsequent to the financial year ended 30 June 2005.

20. FINANCIAL INSTRUMENTS

(i) Significant accounting policies

Details of significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the accounts.

(ii) Interest rate risk

The following table details the Company's exposure to interest rate risk as at the reporting date:

| 2005 | Average Interest Rate | Variable Interest Rate | Fixed Interest Rate Maturity Less than 1 year | Non-interest Bearing | Total |
|------------------------------|-----------------------------|------------------------------|---|-------------------------|-----------|
| | % | \$ | \$ | \$ | \$ |
| Financial Assets | | | | | |
| Cash | - | - | - | 74,881 | 74,881 |
| Receivables | | - | - | 309,155 | 309,155 |
| | | - | - | 384,036 | 384,036 |
| Financial liabilities | | | | | |
| Accounts payable | | - | - | 3,863,699 | 3,863,699 |
| | | - | - | 3,863,699 | 3,863,699 |
| 2004 | | | | | |
| Financial Assets | | | | | |
| Cash | | - | - | 2,000 | 2,000 |
| At call deposits | | - | - | - | - |
| Receivables | | - | - | - | - |
| | | - | - | - | 2,000 |
| Financial liabilities | | | | | |
| Bank overdraft | | - | - | - | - |
| Accounts payable | | - | - | - | - |
| | | - | - | - | - |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

21. FINANCIAL INSTRUMENTS (Continued)

(iii) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy of dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company measures credit risk on a fair value basis.

The Company does not have any significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk without taking account of the fair value of any collateral or other security obtained.

(iv) Net fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the accounts.

22. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Yang Yang China Holdings Ltd is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006.

In 2004, the Company allocated resources to conduct impact assessments to identify key areas that would be impacted by the transition to AIFRS. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS in the future, and is required when West Australian Metals Ltd prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net loss for the year ended 30 June 2005.

The figures disclosed are management's best estimate of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to:

- (a) ongoing work being undertaken due to the AIFRS review;
- (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and the International Financial Reporting Interpretations Committee, and;
- (c) emerging accepted practice in the interpretation and application of AIFRS and Urgent Issues Group interpretations.

(a) Reconciliation of equity as presented under AGAAP to that under AIFRS

| | Economic Entity | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 30 June 2005 | 1 July 2004 | 30 June 2005 | 1 July 2004 |
| | \$ | \$ | \$ | \$ |
| Total equity under AGAAP | 1,482,928 | 2,025,560 | 1,482,928 | 2,025,560 |
| Adjustments for effect of transition to AIFRSs | - | - | - | - |

Total equity under AIFRS

| | | | |
|------------------|-----------|------------------|-----------|
| 1,482,928 | 2,025,560 | 1,482,928 | 2,025,560 |
|------------------|-----------|------------------|-----------|

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

22. **IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

(b) **Reconciliation of net loss under AGAAP to that under AIFRS**

| | 30 June 2005 |
|--|----------------|
| | \$ |
| Net loss as reported under AGAAP | 897,075 |
| Adjustments for effect of transition to AIFRSs | - |
| Net loss under AIFRS | 897,075 |

No material impacts are expected in relation to the statement of cash flows.

Expected changes to accounting policies on adoption of AIFRS

A Taxation

Under AASB 112, the Australian equivalent to IAS 12 "Income Taxes", a balance sheet approach will be adopted for calculating taxation, replacing the "statement of financial performance approach". This method recognizes deferred tax balances for all temporary differences arising between the carrying value of an asset or liability and its tax base. Whilst there will be enhanced disclosure of the composition of the deferred tax assets and liabilities it is not expected that there will be any significant impact in terms of the statement of financial position or performance.

The Company will not bring to account the estimated future income tax benefits attributable to tax losses and temporary differences as a deferred tax asset, as it is not yet considered probable that future taxable profit will be available for utilisation.

B Impairment of Assets

Under the Australian equivalent to IAS 36 "Impairment of Assets" the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change to the Company's current accounting policy which determines the recoverable amount of an asset on the basis of discounted (undiscounted) cash flows. Under the new policy it is likely that the impairment of assets will be recognized sooner and the amount of write downs will be greater. This may affect the carrying value of capitalised research & development costs as they will no longer be amortised on a straight line basis.

Property plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses (the cost method). The fair value of property plant and equipment, as determined by reference to observable prices, is not materially different to the carrying amount.

C Share based payments

Under AASB 2 "Share Based Payments", the Company will be required to bring to account the effect of share-based payments, including options, on its financial performance and financial position.

INDEPENDENT AUDITOR'S REPORT

to the members of Yang Yang China Holdings Ltd

Scope

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes and the directors' declaration for Yang Yang China Holdings Limited the company and the consolidated entity for the period ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that period.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory professional reporting requirements in Australia a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our opinion on the basis of these procedures, which included:

- examining on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Whilst we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical requirements and the Corporations Act 2001.

Qualification

We have been unable to obtain satisfactory audit evidence to support the carrying value of capitalised research and development.

Qualified Audit Opinion

In our opinion, except for the effects on the financial report of the matter referred to in the qualification paragraph, the financial report of Yang Yang China Holdings Limited is in accordance with:

- a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and their performance for the period ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements.

Rothsay

Graham R Swan
Partner

Dated 30th September 2005

The liability of Rothsay is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW)

Directors' Declaration

The Directors declare that:

DIRECTORS' DECLARATION

The Directors declare that:

- a) the attached financial statements and notes thereto comply with Accounting Standards;
- b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and consolidated entity;
- c) in the directors opinion, the attached financial statements and notes thereto are in accordance with the Corporation Act 2001; and
- d) in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

Signed at Sydney this 30th day of September 2005.

This declaration is made in accordance with a resolution of the Directors.

On behalf of the Directors



Yang Liu - Director

Sydney

Dated this 30 September 2005

Newcastle Stock Exchange Information

The following additional information is required by the Newcastle Stock Exchange Limited in respect of listed public companies.

1 (a) Distribution of Shareholder Numbers

The distribution of shareholders and their shareholdings at 8 September 2005 was as follows: -

| Range | Shareholders | Fully Paid Shares | % Owned |
|-----------------------|--------------|-------------------|---------|
| 1 - 10,000 | 14 | 140,000 | 0.08% |
| 10,001 - 100,000 | 25 | 991,000 | 0.55% |
| 100,001 - 500,000 | 4 | 1,150,550 | 0.64% |
| 500,001 - 1,000,000 | 3 | 2,030,500 | 1.13% |
| 1,000,001 - 2,000,000 | 3 | 5,326,950 | 2.95% |
| 2,000,001 - 3,000,000 | 3 | 7,327,000 | 4.06% |
| 3,000,001 - 5,000,000 | 1 | 3,500,000 | 1.94% |
| 5,000,001 - 6,000,000 | 1 | 5,250,000 | 2.91% |
| 6,000,001 - 7,000,000 | 0 | - | 0.00% |
| 7,000,001 - 8,000,000 | 0 | - | 0.00% |
| 8,000,001 - 9,000,000 | 3 | 25,990,000 | 14.40% |
| 9,000,001 + | 1 | 128,750,000 | 71.35% |
| TOTAL | 58 | 180,456,000 | 100.00% |

(b) The number of shareholders holding less than a marketable parcel of 10,000 shares is nil.

(c) The names of substantial shareholders listed in the holding company's register as at 8 September 2005 are:

| Shareholders Name | Number of Shares | % |
|-------------------|------------------|--------|
| Ms Yang Liu | 128,750,000 | 71.34% |

(d) Voting Rights

All issued shares are of one class being ordinary shares. Each shareholder is entitled to one vote on a show of hands on any matter put to a vote by show of hands at a meeting of shareholders.

Each shareholder is entitled to one vote per share on any matter put to a poll at a meeting of shareholders.

2. Substantial Shareholders

The top 20 shareholders and their shareholding at 9 September 2004 were as follows: -

| | Shareholder | No. of Shares held | % of Capital |
|----|------------------------------|--------------------|--------------|
| 1 | Yang Liu | 128,750,000 | 71.3% |
| 2 | Ryhat Establishment | 8,750,000 | 4.8% |
| 3 | Xiao Bo Zhou | 8,740,000 | 4.8% |
| 4 | Xiong Zhao | 8,500,000 | 4.7% |
| 5 | Logic International Software | 5,250,000 | 2.9% |
| 6 | APEC Group Pty Limited | 3,500,000 | 1.9% |
| 7 | America's Travel Corporation | 2,542,000 | 1.4% |
| 8 | Xp Zhou | 2,510,000 | 1.4% |
| 9 | Koon Sang Lim | 2,275,000 | 1.3% |
| 10 | Shi Liang Li | 1,944,450 | 1.1% |
| 11 | SIBCO Australia Pty Limited | 1,750,000 | 1.0% |
| 12 | Xiao Pin Zhang | 1,632,500 | 0.9% |
| 13 | Kam Ling Leung | 1,000,000 | 0.6% |
| 14 | Ching Nga Hui | 530,000 | 0.3% |

Yang Yang China Holdings Limited and its controlled entities

A.C.N. 109 469 383

| | Shareholder | No. of Shares held | % of Capital |
|----|----------------------------|--------------------|--------------|
| 15 | Logic China Investment And | 500,500 | 0.3% |
| 16 | Jhang Gin | 400,000 | 0.2% |
| 17 | Kin Cheung Chan | 400,000 | 0.2% |
| 18 | Sheng Jiang | 190,550 | 0.1% |
| 19 | Ding Yuan Feng | 160,000 | 0.1% |
| 20 | Gillian Macintosh | 100,000 | 0.1% |
| 20 | Christopher Daw | 100,000 | 0.1% |
| 20 | David Cobcroft | 100,000 | 0.1% |

1 Unquoted Equity Securities

| | Number on issue | Number of holders |
|---|-----------------|-------------------|
| Options issued to take up ordinary shares | 180,456,000 | 58 |

As at the date of this Annual report, the options held are:

| Holder | No. of Options | % of Total |
|------------------------------|----------------|------------|
| Yang Liu | 128,750,000 | 71.35% |
| Ryhat Establishment | 8,750,000 | 4.85% |
| Xiao Bo Zhou | 8,740,000 | 4.84% |
| Xiong Zhao | 8,500,000 | 4.71% |
| Logic International Software | 5,250,000 | 2.91% |
| APEC Group Pty Limited | 3,500,000 | 1.94% |
| America's Travel Corporation | 2,542,000 | 1.41% |
| Xp Zhou | 2,510,000 | 1.39% |
| Koon Sang Lim | 2,275,000 | 1.26% |
| Shi Liang Li | 1,944,450 | 1.08% |
| SIBCO Australia Pty Limited | 1,750,000 | 0.97% |
| Xiao Pin Zhang | 1,632,500 | 0.90% |
| Kam Ling Leung | 1,000,000 | 0.55% |
| Ching Nga Hui | 530,000 | 0.29% |
| Logic China Investment And | 500,500 | 0.28% |
| Jhang Gin | 400,000 | 0.22% |
| Kin Cheung Chan | 400,000 | 0.22% |
| Sheng Jiang | 190,550 | 0.11% |
| Ding Yuan Feng | 160,000 | 0.09% |
| Gillian Macintosh | 100,000 | 0.06% |
| Christopher Daw | 100,000 | 0.06% |
| David Cobcroft | 100,000 | 0.06% |
| Peng Wai Wong | 76,000 | 0.04% |
| Xue Lan Liu | 50,000 | 0.03% |
| Wing Bun Tsang | 50,000 | 0.03% |
| Chao Yue Lin | 40,000 | 0.02% |
| Yu Liu | 40,000 | 0.02% |
| Dong Ping Wang | 40,000 | 0.02% |
| Hao Lian Zheng | 40,000 | 0.02% |
| Shu Ji Chen | 40,000 | 0.02% |
| Dong Hui Liu | 40,000 | 0.02% |
| Li Ping Liao | 30,000 | 0.02% |

Yang Yang China Holdings Limited and its controlled entitiesA.C.N. 109 469 383

| Holder | No. of Options | % of Total |
|---|----------------|------------|
| JWW Super Fund: Michael White | 25,000 | 0.01% |
| Anthony John Hayman & Donna Marie Hayman | 25,000 | 0.01% |
| Yuan Gao | 20,000 | 0.01% |
| Xu Xia Zhou | 20,000 | 0.01% |
| Shao Qiong Li | 20,000 | 0.01% |
| Yan Jun Li | 20,000 | 0.01% |
| Zhong Juan Ren | 20,000 | 0.01% |
| Jiang Zhou | 20,000 | 0.01% |
| Jiang Zhang | 20,000 | 0.01% |
| Shi Hui Luo | 20,000 | 0.01% |
| Yu Hua Jiang | 20,000 | 0.01% |
| Shao Jiun Huang | 15,000 | 0.01% |
| Ka Yin Tang | 10,000 | 0.01% |
| Bang Zheng Xiao | 10,000 | 0.01% |
| Yan Wen | 10,000 | 0.01% |
| I P Jenny Wong | 10,000 | 0.01% |
| Wei Xiao | 10,000 | 0.01% |
| Dominic McCann & Jacinta McCann | 10,000 | 0.01% |
| Xiao Li Tan | 10,000 | 0.01% |
| Hua Li | 10,000 | 0.01% |
| Ka Ho Tang | 10,000 | 0.01% |
| Shao Feng | 10,000 | 0.01% |
| Brett Brown | 10,000 | 0.01% |
| Shu Bing You | 10,000 | 0.01% |
| Xiao Bin He | 10,000 | 0.01% |
| Yue Bai Ao | 10,000 | 0.01% |
| Total | 180,456,000 | 100% |