

**YANG  
YANG  
CHINA**  
FOODS & BEVERAGES  
2006

# FOR REAL ANNUAL



# Yang Yang China Holdings Ltd

Annual Financial Report  
for the Financial Year Ended  
30 June 2006

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## Company Particulars

### Yang Yang China Holdings Limited

#### Directors

As at 30/06/06

Ms Yang Liu	Chairman and Managing Director
Mr Colin Archer	Non-Executive Director
Professor Feng Jin	Non-Executive Director
Mr Michael Matchett	Non-Executive Director
Professor King Yin Liu	Executive Director

#### Registered Office

Suite 545, 5<sup>th</sup> Floor, Edgecliff Centre,  
203-233 New South Head Road,  
**Edgecliff, NSW 2027, Australia**

#### Telephone

02-9327-7373 **Facsimile** 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](#)

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<sup>th</sup> 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 Sydney, Australia on the 30<sup>th</sup> November 2006 (refer  
to Notice of Meeting).

Date **30 November 2006**



Investor and Members Briefing held at  
the Stamford Plaza Hotel Double Bay  
in July 2006.

The presentation may be viewed on  
the Newcastle Stock Exchange Site but  
following the web link below.

<http://www.newsx.com.au/ftp/news/021717919.PDF>

## Chairman's Report



I want to start my report by thanking my board for their tireless efforts in establishing the credentials of [Yang Yang](#) as a biotechnology company and our loyal shareholders for their unreserved support. I am looking forward to the future of the company and have put the difficulties endured during the 2005 calendar year behind us. Rather than dwelling on some of the difficulties in getting [Yang Yang listed on the Newcastle Stock Exchange](#) in Australia I look forward to gaining final approvals to use our unique biotechnology in animal food across Australia.

Those past efforts were totally consuming being focused on getting the company established as an Australian listed entity, while starting to build a solid foundation for the expansion of the company into the Australian market.

Our listing on the [Newcastle Stock Exchange](#) is yet to generate large amounts of share trading. In this light I am committed to working with my board to develop Yang Yang's biotechnology into the market place and provide shareholder value.

The company is establishing a demonstration piggery in [Young NSW](#), using our LETU biotechnology product and other associated technologies will show the transition of an existing pig farm using traditional farming methods into a gleaming example of what can be achieved with LETU.

The demonstration Eco farm will become the site for piggery "open days" and it is expected that the pig farming community in Australia will visit and be impressed with the result.

In addition to the demonstration piggery, we propose to explore the economic benefits that [Carbon Credits](#) can offer. This will flow from the significant ecological advantages that accrue from the use of LETU and its corresponding effect in the reduction of methane gas.

The board has also been looking at co-operating with the [Fijian Government](#) and local clans to bring our LETU bio-technology to Fijian Agricultural and Fishing industries. One of my directors has met with the [Agricultural minister in Fiji](#) for discussions about the project and we have received a favourable response to our proposal.

During a recent visit to [Beijing](#) my directors and I had meetings with the Agriculture and Commerce ministries in China to look at ways we can work together with them to assist [Fijian industry](#).

So in conclusion I would like to take this opportunity to thank my board members for their hard work over the past 12 months and in particular our shareholders who have been supportive as we move towards the future.

A handwritten signature in black ink, appearing to read '刘 杨' (Liu Yang).

**Yang LIU**  
**Chairman and Managing Director**

## Directors' Report

30 June 2006

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 2006

### Directors

The following persons were directors of Yang Yang China Holdings Limited during the whole of the financial year and up to the date of this report 30<sup>th</sup> June 2006.

Ms Yang Liu

Professor King Yin Liu

Mr. Colin Archer

Professor Feng Jin

Mr. Michael Matchett

### Information on Directors in Office During the Financial Year Period 1<sup>st</sup> July 2005 to 30<sup>th</sup> June 2006

Ms Yang Liu

#### Chairman and Managing Director.

Appointed a director on 9<sup>th</sup> 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 Guandong JBC Biological Company Ltd. Ms Liu is a graduate student in Law, Department of China Politics and Law University.

Professor King Yin Liu

#### Executive Director

Appointed a director on 26 November 2004, Professor 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, and C.G.A. Certified General Accountants Designation from Ontario, Canada.

Mr Colin Archer

#### Non-Executive Director

Appointed a director on 9 June 2004, Mr Archer is an Associate of Business Administration, Graduate and Member of the Company Directors Association of Australia, and Honorary Chairman of the Technology in Government Committee. Mr Archer resides in Australia and is CEO of APEC Group Ltd, a private investment company. Mr Archer is also a Director of Sibco Australia Pty Ltd. Sibco was contracted by Yang Yang China Holdings Limited to facilitate the Listing of the company on the NSX and it continues in an advisory role to improve the performance of the company..

Professor Feng Jin

**Non-Executive Director**

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, The University of Tokyo, Japan. Professor Jin obtained 4 professorships for Life Science College of Inner Mongolia Normal University, Northwest Normal University and Central University for National Minority.

Mr Michael Matchett

**Non-Executive Director**

Appointed a director on 26 November 2004, Mr Matchett is Secretary to the Technology in Government Committee, co-ordinating the Government Technology Productivity Awards. Mr Matchett resides in Australia and is Managing Director of National Technology Enterprises Pty Ltd. Mr Matchett has no interest in the securities of the company.

*The above named directors held office during and since the end of the financial year. Professor King Yin Liu has resigned and been replaced by Mr. Xiao Bo Zhou after 30<sup>th</sup> June 2006.*

- i. The Directors attendances at Directors' meetings held during the year were;
- ii. 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	5	5	128,750,000	-	128,750,000
Professor King Yin Liu	3	5	-	-	-
Mr Colin Archer	5	5	-	1,750,000	1,750,000
Professor Feng Jin	5	5	-	-	-
Mr Michael Matchett	5	5	-	-	-

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

\*\*As at the date of this report (30<sup>th</sup> June 2006)

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 resigned as Company Secretary He resigned on 19 September 2005. Mr Colin Archer was appointed as Company Secretary on 19 September 2005.

## Principal Activities

The principal activities of the Company are as a life sciences company developing the Market for its bio-technology product, LETU.

## Operating Results

The consolidated loss of the economic entity after providing for income tax and eliminating outside equity interests is presented in the Statement of Financial Performance contained in this document.

## 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

[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. The company (JBC) is a 100% Chinese Foreign Owned Entity with the shares being owned by Yang Yang China Holdings Limited.

During the year all final testing was completed by the Professors from China and the Experimental Farm used for this purpose was decommissioned.

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.

China, with its population of 1.3 billion, consumes approximately 586 million pigs and 9 billion chickens each year. Negotiations are now in hand to contract with the Local Government's of China to convert a number of farms in the South China region. Negotiations have been long and time consuming with further talks planned for later in the year.

The processes of dealing with Australian "food authorities" such as the [Australian Quarantine Inspection Service \(AQIS\)](#) and [Australian Pesticides and Veterinary Medicines Authority \(APVMA\)](#) has been time consuming. This has put pressure on the company's cash resources and we will be looking to raise more capital over the coming months.

## Significant Changes in the State of Affairs

Since the balance date the following events have occurred:

The company has continued to pursue the registration for use of its LETU in animal food (particularly Pigs) in Australia. An Application has been lodged with [APVMA](#) and we expect an answer by the end of December 2006.

## 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 limited operations. The company will be looking to raise more capital in the next twelve months for the purpose of finalising arrangements for the introduction of LETU into Australia on the [trial pig farm in Young, NSW, Australia](#). Disclosure of additional information regarding likely developments in the operations and expected results is likely to result in unreasonable prejudice to current company negotiations.

## Environmental Regulations

The company's operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth of Australia 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 director's and executive's 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.

### 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 2006. Ms Liu in her capacity of Chairman and Managing Director has supplied her services free of charge as have the other directors.

Name	Salary	Directors Fee	Superannuation	Other Benefits	Options	Total
Ms Yang Liu	-	-	-	-	-	-
Prof. King Yin Liu	-	-	-	-	-	-
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 2006.

Name	Base Salary	Motor Vehicle	Superannuation	Other Benefits	Options	Total
Mr Colin Archer Company Secretary	-	-	-	-	-	-



Options that were granted over un-issued shares or interest during or since the financial year ended 30<sup>th</sup> June 2006 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	NIL
Mr Michael Matchett	NIL
Mr Colin Archer	NIL
Prof Kin Yin LIU	NIL
Prof Feng Jin	NIL
<b>Total</b>	<b>NIL</b>

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



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Yang Liu – Chairman Dated 29th September 2006

## 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' best interests while ensuring full compliance with legal requirements.

### **2 Date of this Statement**

This statement reflects our corporate governance policies and procedures as at 30 June 2006.

### 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 as at the 30<sup>th</sup> June 2006, with details of individual Director's backgrounds, is set out below.

	Director & Chairman	Director	Director	Director	Director
Name:	Ms Yang Liu	Prof. King Yin Liu	Mr Colin Archer	Prof Feng Jin	Mr Michael Matchett
Age	41	55	57	49	58
Term or office	Director since June 2003. Chairman since June 2004	Director since November 2004	Director since June 2004	Director since November 2004	Director since November 2004
Independent	No	No	No	Yes	Yes
External Directorships		Marketing Lecturer at University of Sydney, Hong Kong Campus.	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, 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 effective 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.

### **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 (five) 5 times. The Chairman establishes meeting agendas to ensure adequate coverage of financial, strategic and major risk areas throughout the year. The Directors 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 Chairman and NSX NOMAD, Whitten's Lawyers 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 2006, there were 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. Because of Distance and the diversity of the nationalities of the Members this task may be performed by teleconference, video-conference or any other method suitable to the board and in the interests of the shareholders.

## **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 Chairman 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 Chairman 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 affect on the price or value of the securities of the company.

### **8d) Market Disclosure Policy and Practices**

The Chairman in consultation with the NSX NOMAD 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.



## Financials

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

#### INCOME STATEMENT

for the year ended 30 June 2006

		Economic Entity		Company	
	Note	2006	2005	2006	2005
		\$	\$	\$	\$
Sales Revenue		292,358	567,342	-	-
Interest and other income		279,064	105,053	10,946	-
Total revenue	2	571,422	672,395	10,946	-
Direct costs of production		(193,827)	(494,820)	-	-
NSX Listing costs		(82,032)	(302,402)	(82,032)	(302,402)
Advertising and marketing		(277,050)		(277,050)	
Auditors' remuneration					
- audit fees		(30,500)	(5,000)	(30,500)	(5,000)
- other services		-	-	-	-
Consultants		(124,839)	(87,564)	(124,839)	(87,564)
Depreciation		(12,089)	(6,045)	-	-
Directors' fees		-	-	-	-
Write-off R&D		(812,625)	(230,601)		
Excess of assets acquired over investment		-	(34,026,830)	-	
Write-off investment in subsidiary		-	-	-	(34,998,000)
Other corporate expenses		(259,930)	(484,589)	(259,930)	(30,555)
Total Expenses		(1,792,892)	(35,637,851)	(774,351)	(35,423,521)
Profit (loss) from ordinary activities before related income tax expense		(1,221,470)	(34,965,456)	(763,405)	(35,423,521)
Income tax expense	3	-	-	-	-
Profit (loss) from ordinary activities after related income tax expense		(1,221,470)	(34,965,456)	(763,405)	(35,423,521)
Net Loss attributable to members of Yang Yang China Holdings Ltd		(1,221,470)	(34,965,456)	(763,405)	(35,423,521)
Accumulated losses at beginning of financial year		(34,965,456)	-	(35,423,521)	-
<b>Accumulated losses at end of financial year</b>		<b>(36,186,926)</b>	<b>(34,965,456)</b>	<b>(36,186,926)</b>	<b>(35,423,521)</b>
Earnings per share – basic	16	(0.06)	(1.9)	(0.04)	(1.9)

The accompanying notes form part of this report

## BALANCE SHEET

as at 30 June 2006

	Note	Economic Entity		Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
Cash and cash equivalents	14	380,066	74,881	379,874	47,766
Receivables	4	396,952	309,155	20,695	35,713
Inventories	5	-	247,820	-	-
<b>Total Current Assets</b>		<b>777,018</b>	<b>631,856</b>	<b>400,569</b>	<b>83,479</b>
Plant & equipment	6	21,861	33,950	-	-
Investment in subsidiary	7	-	-	-	-
Intangibles	8	-	3,736,437	-	-
<b>Total Non-Current Assets</b>		<b>21,861</b>	<b>3,770,387</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>798,879</b>	<b>4,402,243</b>	<b>400,569</b>	<b>83,479</b>
Trade payables	9	410,605	3,863,699	12,295	3,000
<b>Total Current Liabilities</b>		<b>410,605</b>	<b>3,863,699</b>	<b>12,295</b>	<b>3,000</b>
<b>TOTAL LIABILITIES</b>		<b>410,605</b>	<b>3,863,699</b>	<b>12,295</b>	<b>3,000</b>
<b>NET ASSETS</b>		<b>388,274</b>	<b>538,544</b>	<b>388,274</b>	<b>80,479</b>
Share capital	10	36,575,200	35,504,000	36,575,200	35,504,000
Accumulated losses		(36,186,926)	(34,965,456)	(36,186,926)	(35,423,521)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>388,274</b>	<b>538,544</b>	<b>388,274</b>	<b>80,479</b>

The accompanying notes form part of this report

## STATEMENT OF CASH FLOWS

for the year ended 30 June 2006

		Economic Entity		Company	
	Note	2006	2005	2006	2005
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Cash receipts in ordinary course of operations (inclusive of goods and services tax)		571,422	567,342	-	-
Government subsidy		-	104,839	-	-
Interest received		12,699	214	12,699	-
Payments to suppliers (inclusive of goods and services tax)		(1,206,463)	(300,954)	(608,118)	(30,555)
<b>Net cash from operating activities</b>	15	<b>(622,342)</b>	<b>371,441</b>	<b>(595,419)</b>	<b>(30,555)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		-	-	-	-
Loan to subsidiary		-	-	-	-
Research & development expenditure		-	(295,120)	-	-
Purchase of investments		-	-	-	-
<b>Net cash from investing activities</b>		<b>-</b>	<b>(295,120)</b>	<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares		1,071,200	504,000	1,071,200	504,000
Payment of NSX listing costs & consultants		(143,673)	(427,679)	(143,673)	(427,679)
<b>Net cash flow from financing activities</b>		<b>927,527</b>	<b>76,321</b>	<b>927,527</b>	<b>76,321</b>
<b>Net (increase) decrease in cash held</b>		<b>305,185</b>	<b>72,881</b>	<b>332,108</b>	<b>45,766</b>
Cash at beginning of year		74,881	2,000	47,766	2,000
<b>Cash at the end of the financial year</b>	14	<b>380,066</b>	<b>74,881</b>	<b>379,874</b>	<b>47,766</b>

The accompanying notes form part of this report.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

### 1. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **Basis of preparation**

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

#### Compliance with IFRSs

Australian Accounting Standards include AIFRS. Compliance with AIFRSs ensure that the financial statements and notes of Yang Yang China Holdings Ltd comply with International Financial Reporting Standards (IFRS).

#### Application of AASB1 First time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Northern Star Resources Ltd financial statements to be prepared in accordance with AIFRSs. AASB1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of the Company until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Company's equity and its net income are given at note 22.

#### Historical cost convention

These financial statements have been prepared under the historical cost convention.

#### **a) Income Tax**

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the national income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

#### **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.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

### 1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

#### c) Cash

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### d) 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.

#### e) 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%
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#### f) 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 otherwise it is written off as impaired. 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 amount written off as impaired. 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.

#### g) 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.

#### h) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value, less any estimated credit adjustments, of trade receivables and payables are assumed to approximate their fair value.

#### i) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations, effective for the 2007 financial statements, have been published that are not mandatory for 30 June 2006 reporting periods. The Company has elected not to adopt, where available, these standards and UIG interpretations early. Application of the standards and UIG interpretations is not expected to effect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in the notes to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

### 1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

#### j) Revenue Recognition

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

#### k) Impairment of assets

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value 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 assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation increase.

#### l) Trade Payables

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

#### m) Provisions

Provisions are recognised when the Company has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be reliably measured.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

**n) Leases**

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised. The Company has no finance leases.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2006

	Economic Entity		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>2. OPERATING REVENUE</b>				
Included in operating revenue are the following items				
Revenue from sales of pigs and pork products	292,358	567,342	-	-
Other income	268,118			
Government subsidies	-	104,839	-	-
Interest received or due and receivable from other corporations	10,946	214	-	-
	<b>571,422</b>	<b>672,395</b>	<b>-</b>	<b>-</b>
<b>3. INCOME TAX</b>				
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.				
<b>4. RECEIVABLES</b>				
Debtors	-	62,894	-	-
GST refundable	20,695	35,713	20,695	35,713
Deposits and prepayments	11,573	20,976		
Other receivables	364,684	189,572	-	-
	<b>396,952</b>	<b>309,155</b>	<b>20,695</b>	<b>35,713</b>
<b>5. INVENTORY</b>				
Pigs and pig products	-	247,820	-	-
<b>6. PLANT AND EQUIPMENT</b>				
Plant & equipment – at cost	39,994	39,994	-	-
Less: Accumulated depreciation	(18,133)	(6,044)	-	-
Net carrying value	21,861	33,950	-	-
Reconciliation of carrying amount				
Brought forward	-	-	-	-
Plant & equipment acquired during year	-	-	-	-
Plant & equipment of subsidiary acquired during year	33,950	39,994	-	-
Disposals	-	-	-	-
Depreciation during year	(12,089)	(6,044)	-	-
Carrying value at balance date	21,861	33,950	-	-
<b>7. INVESTMENT IN CONTROLLED ENTITIES</b>				
<b>Name</b>	<b>Country of Incorporation</b>	<b>Percentage of equity interest held by economic entity</b>		
		<b>2006</b>	<b>2005</b>	
Guandong JBC Biological Co Ltd (a)	China	100%	100%	
<b>Investment</b>				
Shares at cost		34,998,000	34,998,000	
Less: Writedown of investment		(34,998,000)	(34,998,000)	
		-	-	
<b>(a) Audited by Chan Chak Chung &amp; Co (Hong Kong)</b>				



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

### 7. INVESTMENT IN CONTROLLED ENTITIES (cont'd)

	Company	
	2006	2005
	\$	\$
<b>Contribution to group operating loss</b>		
Yang Yang China Holdings Ltd	763,405	35,423,521
Guandong JBC Biological Co Ltd		
	<b>458,065</b>	<b>(458,065)</b>
	<b>1,221,470</b>	<b>34,965,456</b>

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

	Economic Entity		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>8. RESEARCH &amp; DEVELOPMENT</b>				
R&D acquired	3,736,437	3,671,918	-	-
Expenditure during year	-	295,120	-	-
Written off as impaired	(3,736,437)	(230,601)	-	-
Carrying value at end of year	-	3,736,437	-	-

### 9. CREDITORS AND BORROWINGS

#### Current

Due to Director	6,795	2,477,833	6,795	3,000
Accounts payable	81,229	1,224,576	5,500	-
Refundable deposit	322,581	161,290	-	-
	<b>410,605</b>	<b>3,863,699</b>	<b>12,295</b>	<b>3,000</b>

	Number	2006 \$	Number	2005 \$
<b>10. CONTRIBUTED EQUITY</b>				
<b>Issued Capital</b>				
Balance at beginning of year	177,792,000	35,504,000	10,000	2,000
Placement	2,656,000	531,200	2,800,000	504,000
Placement	2,700,000	540,000	-	-
Acquisition of subsidiary (Note 7)	-	-	174,990,000	34,998,000
Balance at end of year	<b>183,148,000</b>	<b>36,575,200</b>	<b>177,792,000</b>	<b>35,504,000</b>

The placements of 2,656,000 and 2,700,000 shares at 0.20 cents each raised funds which were utilised for working capital.

	Number	2006 \$	Number	2005 \$
<b>10. Options</b>				
	177,790,000	-	-	-
Exercised during year	-	-	-	-
Issued during year	4,006,000	-	177,790,000	-
Expired during year	-	-	-	-
Balance at end of year	<b>181,798,000</b>	<b>-</b>	<b>177,790,000</b>	<b>-</b>

The 2,656,000 ordinary shares of 20 cents issued pursuant to a placement had a free attached option exercisable at 30 cents each on or before 31 December 2009 and the 2,700,000 shares of 0.20 cents each issued pursuant to a placement had one free option for each two shares issued exercisable at 30 cents each on or before 31 December 2009

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

### 10. Contributed Equity (cont'd)

In the 2005 year 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

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.

### 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	
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash on Deposit			300,000	-
Cash at bank and on hand	74,881	74,881	79,874	47,766
	<b>74,881</b>	<b>74,881</b>	<b>379,874</b>	<b>47,766</b>

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

	Economic Entity		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Operating Profit (loss)	(1,221,470)	(34,965,456)	(763,405)	(35,423,521)
Add (less) non cash items				
Write-off R&D	812,625	230,601	-	-
Depreciation	12,089	6,045	-	-
Excess of assets acquired of cost of investment	-	34,026,830	-	34,998,000
Write off investment	-	-	-	-
Decrease/increase in operating assets and liabilities:				
Receivables	(87,797)	(309,155)	21,813	(35,713)
Inventory	247,820	(247,820)	-	-
Creditors & borrowings	(529,282)	459,835	2,500	3,000
Add (less) items classified as investing or financing activities:				
NSX Listing costs & consultants	143,673	427,679	143,673	427,679
Net cash provided by operating activities	<b>(622,342)</b>	<b>(371,441)</b>	<b>(595,419)</b>	<b>(30,555)</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

### 16. EARNINGS PER SHARE ("EPS")

Basic earnings per share	\$ (0.06)	\$(1.9)
Weighted average number of ordinary shares on issue used in calculation of basic earnings per share	183,148,000	177,792,000
Diluted earnings per share is not materially different from basic earnings per share		

### 17. AUDITORS' REMUNERATION

	Economic Entity		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Amount received or due and receivable by the auditor for:				
a) <b>Audit services</b>				
Chief entity auditor	9,500	5,000	9,500	5,000
Subsidiary company auditor	20,000	5,000	20,000	5,000
b) <b>Other services</b>				
Income tax return preparation	1,000	-	1,000	-
Total remuneration of auditors	30,500	10,000	30,500	10,000

### 18. AUDITORS' INDEPENDENCE

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. 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:

	Average Interest Rate	Variable Interest Rate	Fixed Interest Rate Maturity Less than 1 year	Non-interest Bearing	Total
	%	\$	\$	\$	\$
<b>2006</b>					
<b>Financial Assets</b>					
Cash	-	300,000	-	80,066	380,066
Receivables		-	-	396,952	396,952
		300,000	-	477,018	777,018
<b>Financial liabilities</b>					
Accounts payable		-	-	410,605	410,605
		-	-	410,605	410,605
<b>2005</b>					
<b>Financial Assets</b>					
Cash		-	-	74,881	74,881
Receivables		-	-	309,155	309,155
		-	-	384,036	384,036
<b>Financial liabilities</b>					
Accounts payable		-	-	3,863,699	3,863,699
		-	-	3,863,699	3,863,699

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

### 19. FINANCIAL INSTRUMENTS (Continued)

#### (iii) Credit risk

Credit risk refers to the risk that a counter party 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.

### 20. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

	Economic Entity		Company	
	30 June 2006	1 July 2005	30 June 2006	1 July 2005
	\$	\$	\$	\$
<b>Total equity under AGAAP</b>	<b>388,274</b>	<b>538,544</b>	<b>388,274</b>	<b>80,479</b>
Adjustments for effect of transition to AIFRSs	-	-	-	-
<b>Total equity under AIFRS</b>	<b>388,274</b>	<b>538,544</b>	<b>388,274</b>	<b>80,479</b>

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

	30 June 2006
	\$
<b>Net loss as reported under AGAAP</b>	<b>1,221,470</b>
Adjustments for effect of transition to AIFRSs	-
<b>Net loss under AIFRS</b>	<b>1,221,470</b>

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

### 21. SUBSEQUENT EVENTS

No 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 2006.

## 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

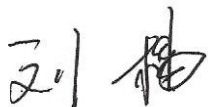
"This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006."

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 2006.

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

On behalf of the Directors



Director

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YANG YANG CHINA HOLDINGS LIMITED

### Scope

The financial report comprises the income statement, statement of changes in equity, balance sheet, statement of cashflows, accompanying notes, and the Directors' declaration for Yang Yang China Holdings Limited the company and the consolidated entity for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

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. The Directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under AASB 1 *First-time adoption of Australian equivalents to IFRS*.

### 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*.

### Audit opinion

- 1 In our opinion, 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 2006 and their performance for the year 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 27 September 2006

## Directors' Declaration

The Directors declare that:

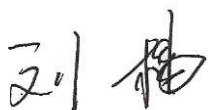
1. The attached financial statements comprising the Statement of Financial Performance Position and Cash Flows and accompanying notes are in accordance with the Corporations Act 2001 and:

- a) Comply with Accounting Standards and the Corporations Regulations 2001; and
- b) Give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the company and the consolidated entity.

2. 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.

Signed in accordance with a resolution of the directors.

On behalf of the Board



**Yang Liu – Chairman**

Sydney

Dated this 28 September 2006

## 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 2006 was as follows:-

Shares	Members	Shares Held	% Held
1 - 10,000	14	140,000	0.0764%
10,001 - 100,000	25	991,000	0.5411%
100,001 - 500,000	5	1,340,550	0.7319%
500,001 - 1,000,000	3	2,030,500	1.1086%
1,000,001 - 2,000,000	3	5,336,950	2.9139%
2,000,001 - 3,000,000	4	9,827,000	5.3654%
3,000,001 - 5,000,000	1	3,500,000	1.9109%
5,000,001 - 6,000,000	1	5,250,000	2.8664%
6,000,001 - 7,000,000	0	0	0.0000%
7,000,001 - 8,000,000	0	0	0.0000%
8,000,001 - 9,000,000	3	25,990,000	14.1901%
9,000,001 +	1	128,750,000	70.2953%
<b>TOTAL</b>	<b>60</b>	<b>183,156,000</b>	<b>100.00%</b>

(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	70.30%

(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 2006 were as follows: -

Shareholder	No. Shares Held	% of Total Shares issued
1 YANG LIU	128,750,000	70.295%
2 RYHAT ESTABLISHMENT	8,750,000	4.777%
3 XIAO BO ZHOU	8,740,000	4.772%
4 XIONG ZHAO	8,500,000	4.641%
5 LOGIC INTERNATIONAL SOFTWARE	5,250,000	2.866%
6 APEC GROUP PTY LIMITED	3,500,000	1.911%
7 AMERICA'S TRAVEL CORPORATION	2,542,000	1.388%
8 XP ZHOU	2,510,000	1.370%
9 GLORY (AUSTRALIA) INVESTMENTS	2,500,000	1.365%
10 KOON SANG LIM	2,275,000	1.242%
11 SHI LIANG LI	1,944,450	1.062%
12 SIBCO AUSTRALIA PTY LIMITED	1,760,000	0.961%



13	XIAO PIN ZHANG	1,632,500	0.891%
14	KAM LING LEUNG	1,000,000	0.546%
15	CHING NGAI HUI	530,000	0.289%
16	LOGIC CHINA & INVESTMENT	500,500	0.273%
17	KIN CHEUNG CHAN	400,000	0.218%
18	JHANG GIN	390,000	0.213%
19	ASPREY INVESTMENTS PTY LIMITED	200,000	0.109%
20	SHENG JIANG	190,550	0.104%
		<b>181,865,000</b>	<b>99.295%</b>

## 1 Unquoted Equity Securities

	Number on issue	Number of holders
Options issued to take up ordinary shares	181,806,000	61

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

1	DOMINIC MCCANN & JACINTA MCCANN	10,000	0.006%
2	HUA LI	10,000	0.006%
3	I P (JENNY) WONG	10,000	0.006%
4	KA HO TANG	10,000	0.006%
5	KA YIN TANG	10,000	0.006%
6	SHAO FENG	10,000	0.006%
7	SHU BING YOU	10,000	0.006%
8	WEI XIAO	10,000	0.006%
9	XIAO BANG ZHENG	10,000	0.006%
10	XIAO BIN HE	10,000	0.006%
11	XIAO LI TAN	10,000	0.006%
12	YAN WEN	10,000	0.006%
13	YUE BAI AO	10,000	0.006%
14	SHAO JIUN HUANG	15,000	0.008%
15	JIANG ZHANG	20,000	0.011%
16	JIANG ZHOU	20,000	0.011%
17	SHAO QIONG LI	20,000	0.011%
18	SHI HUI LUO	20,000	0.011%
19	XU XIA ZHOU	20,000	0.011%
20	YAN JUN LI	20,000	0.011%
21	YU HUA JIANG	20,000	0.011%
22	YUAN GAO	20,000	0.011%
23	ZHONG JUAN REN	20,000	0.011%
24	ANTHONY JOHN HAYMAN & DONNA MAREE HAYMAN	25,000	0.014%
25	MICHAEL WHITE	25,000	0.014%
26	LI PING LIAO	30,000	0.017%
27	CHAO YUE LIN	40,000	0.022%
28	DONG HUI LIU	40,000	0.022%
29	DONG PING WANG	40,000	0.022%
30	HAO LIAN ZHENG	40,000	0.022%
31	SHU JI CHEN	40,000	0.022%
32	YU LIU	40,000	0.022%
33	WING BUN TSANG	50,000	0.028%
34	XUE LAN LIU	50,000	0.028%
35	SIBCO AUSTRALIA PTY LIMITED	60,000	0.033%

36	PENG WAI WONG	76,000	0.042%
37	ANDREW STEELE	80,000	0.044%
38	CHRISTOPHER DAW	90,000	0.050%
39	ASPREY INVESTMENTS PTY LIMITED	100,000	0.055%
40	DAVID COBCROFT	100,000	0.055%
41	GILLIAN MACINTOSH	100,000	0.055%
42	DING YUAN FENG	160,000	0.088%
43	SHENG JIANG	190,550	0.105%
44	JHANG GIN	400,000	0.220%
45	KIN CHEUNG CHAN	400,000	0.220%
46	LOGIC CHINA & INVESTMENT	500,500	0.275%
47	CHING NGAI HUI	530,000	0.292%
48	KAM LING LEUNG	1,000,000	0.550%
49	GLORY (AUSTRALIA) INVESTMENTS	1,250,000	0.688%
50	SIBCO AUSTRALIA PTY LIMITED	1,630,000	0.897%
51	XIAO PIN ZHANG	1,632,500	0.898%
52	SHI LIANG LI	1,944,450	1.070%
53	KOON SANG LIM	2,275,000	1.251%
54	XP ZHOU	2,510,000	1.381%
55	AMERICA'S TRAVEL CORPORATION	2,542,000	1.398%
56	APEC GROUP PTY LIMITED	3,500,000	1.925%
57	LOGIC INTERNATIONAL SOFTWARE	5,250,000	2.888%
58	XIONG ZHAO	8,500,000	4.675%
59	XIAO BO ZHOU	8,740,000	4.807%
60	RYHAT ESTABLISHMENT	8,750,000	4.813%
61	YANG LIU	128,750,000	70.817%
		<b>181,806,000</b>	<b>100.000%</b>