

The cover features a vibrant green agricultural landscape with rolling hills under a clear blue sky. A large, semi-transparent white circle is centered on the page. Overlaid on this circle are three vertical strips of fresh produce: a mix of fruits including apples, grapes, and lemons; a stack of green bell peppers; and a cluster of red tomatoes. A blue butterfly is positioned in the upper right quadrant of the circle. The text 'Annual Report 2000' is printed in a white, sans-serif font across the middle of the circle.

Annual Report 2000



China Agrotech Holdings Limited  
浩倫農業科技集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM”) has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of The Stock Exchange of Hong Kong Limited and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by The Stock Exchange of Hong Kong Limited. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this annual report.*

*This annual report, for which the directors of China Agrotech Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to China Agrotech Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— 1. the information contained in this annual report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this annual report misleading; and 3. all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

Wu Shaoning, *Chairman*  
Yang Zhuoya, *Managing Director*  
Tung Fai

### INDEPENDENT NON-EXECUTIVE DIRECTORS

He Zhongpei  
Lam Ming Yung

### COMPANY SECRETARY

Tong Hing Wah, *AHKSA, ACCA*

### QUALIFIED ACCOUNTANT

Tong Hing Wah, *AHKSA, ACCA*

### COMPLIANCE OFFICER

Tung Fai

### AUTHORISED REPRESENTATIVES

Tung Fai  
Tong Hing Wah, *AHKSA, ACCA*

### AUDIT COMMITTEE

He Zhongpei  
Lam Ming Yung

### AUDITORS

Arthur Andersen & Co  
Charles Chan, Ip & Fung CPA Ltd.

### PRINCIPAL BANKERS

Hua Chiao Commercial Bank Limited  
CITIC Industrial Bank

### SHARE REGISTRARS

HKSCC Registrars Limited  
2nd Floor, Vicwood Plaza  
199 Des Voeux Road Central  
Hong Kong

### REGISTERED OFFICE

Zephyr House  
Mary Street  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2906, 29th Floor  
China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong

## FINANCIAL SUMMARY

### Operating results

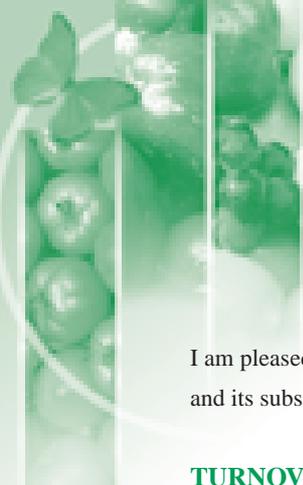
	Years ended 30th June,		
	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000
Turnover	4,534	21,065	86,732
Cost of sales	(1,975)	(5,961)	(18,958)
Gross profit	2,559	15,104	67,774
Selling and distribution expenses	(371)	(3,259)	(18,545)
General and administrative expenses	(190)	(2,581)	(17,128)
Profit from operations	1,998	9,264	32,101
Interest income	—	2	2,768
Interest expense	—	—	(1,074)
Profit before taxation	1,998	9,266	33,795
Taxation	—	(286)	(1,640)
Profit after taxation but before minority interests	1,998	8,980	32,155
Minority interests	(746)	(3,458)	(2,147)
Net profit	1,252	5,522	30,008
Dividend	—	4,000	—

### Assets and liabilities

	As at 30th June,	
	1999	2000
	HK\$'000	HK\$'000
Total assets	7,340	163,231
Net current assets	2,685	56,535
Total liabilities	(1,592)	(64,194)
Net assets	3,618	99,037

#### Note:

- Pursuant to a group reorganisation scheme ("the Reorganisation") in preparation for the listing of the Company's shares on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group on 11th November, 1999. The summary of consolidated assets and liabilities as at 30th June, 1999 and 2000 and the consolidated results for the year ended 30th June, 1998, 1999 and 2000 were prepared as if the current group structure had been in existence throughout those years. Details of the basis of presentation are set out in Note 1 to the accompanying financial statements.
- As the Company has only become the holding company of the Group since 11th November, 1999, no audited consolidated financial statements for the Group had been prepared before 30th June, 2000. The consolidated results of the Group for the years ended 30th June, 1998 and 1999 and the consolidated assets and liabilities as at 30th June, 1999 were extracted from the Company's prospectus dated 16th November, 1999.



## CHAIRMAN'S STATEMENT

I am pleased to present to the shareholders herewith the annual results of China Agrotech Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 30th June 2000 for their consideration.

### **TURNOVER AND PROFITS**

For the year ended 30th June, 2000, the Group recorded a turnover of approximately HK\$86,732,000 (1999: HK\$21,065,000), representing a 3.1 times increase. The audited profit attributable to shareholders was approximately HK\$30,008,000 (1999: HK\$5,522,000), representing an increase of 4.4 times.

### **DIVIDEND**

The Directors of the Group do not recommend the payment of any final dividend, but to retain the profits for the future operation and development of the Group.

### **LISTING ON THE GROWTH ENTERPRISE MARKET ("GEM")**

The Group was successfully listed on the GEM of The Stock Exchange of Hong Kong Limited on 25th November 1999. It was the first enterprise successfully listed on the GEM, and is also the only agricultural hi-tech enterprise listing on the GEM. This has laid an important foundation for the future development of the Group.

### **GROWING RAPIDLY IN 2000**

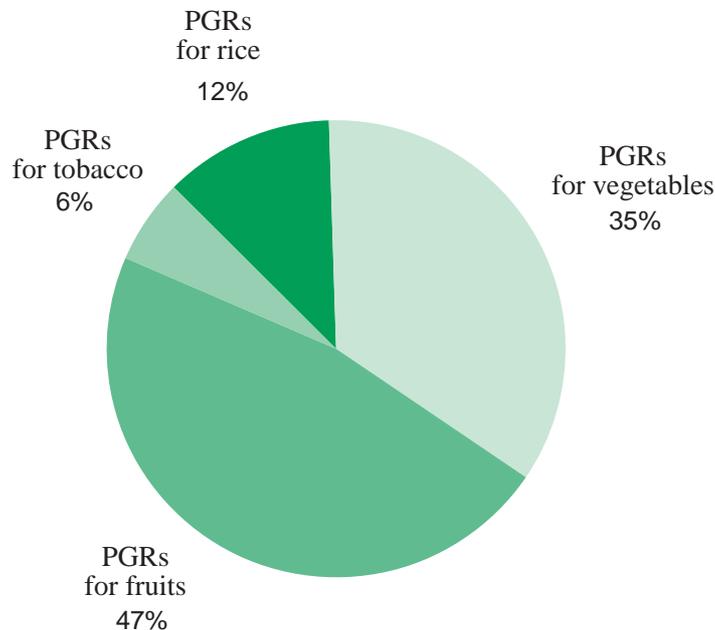
I would like to take this opportunity to highlight the significant development of the Group for the year ended 30th June 2000.

### **EXPANSION OF PRODUCTION CAPACITY**

With the successful development of the new regulatory-type plant growth regulators ("PGRs") for rice and tobacco, as well as the growth in the demands for the existing PGRs for vegetables and fruit, the Group added four production lines alongside with the existing two. The new production lines commenced commercial production in May 2000. The construction of the Group's production plant, office and research buildings at HuiAn Economic Development District, Fujian Province was completed in May 2000. The composite building occupies a site area of about 60,000 square metres, and aims to facilitate the Group's six production lines, namely, one for PGRs for vegetables, two for PGRs for fruits, two for PGRs for rice, and one for PGRs for tobacco.

## CHAIRMAN'S STATEMENT *(Continued)*

As at 30th June, 2000, the annual production volume of the Group has been augmented to 746 tonnes, an increase of 3.1 times as compared to 182 tonnes in 1999, with 261.2 tonnes for PGRs for vegetables, 353.7 tonnes for PGRs for fruits, 87.5 tonnes for PGRs for rice, and 43.6 tonnes for PGRs for tobacco.



### SALES GREW AT SIMILAR PACE

With the Group's effort to enhance the quality of its products, together with a series of measures being implemented by it to reduce the impact of unfavourable environmental conditions, excellent results have been derived from its products. Also, there is a high ratio for the product effectiveness to price. Prior to the launch of every new product for a designated purpose, the research unit and technology promotion department will conduct extensive demonstrations, promotion and marketing activities to ensure the popularity of the products among customers.

The Group always maintains close relationship with other industry participants around the world, and manages to exchange opinion amongst each other. This does not only help increase the awareness of its brand name, but also contributes to the expansion of market share in the industry. In December 1999, Mr. Wu Shaoning, the Chairman, was elected as a director of the Professional Crop Chemical Control Committee of China. Ms. He Zhongpei, an independent non-executive director, was elected as an assistant director of the said committee. Mr. Yang Zhuoya, the managing director, was elected as the standing director of Soil and Fertilizer Academy of Fujian Province for year 2000.

During the year under review, rather than exploring new markets, the Group devoted active pursuits in consolidating and enhancing the market share and popularity of its products in the existing eight major sales centres, namely Beijing, Shandong, Jiangsu, Henan, Hubei, Shanxi, Sichuan and Fujian. The wholesalers of these eight major centres covered 19 provinces in the Mainland China.

During the year ended 30th June, 2000, the Group achieved a turnover of approximately HK\$ 86,732,000, representing an increase of 3.1 time as compared to the turnover of approximately HK\$ 21,065,000 in 1999.



## CHAIRMAN'S STATEMENT *(Continued)*

### GROSS PROFIT MARGIN MAINTAINED AT A HIGHER LEVEL

The Group is the only domestic producer of regulatory-type PGRs in the Mainland China. As the effectiveness being brought by this type of product is increasingly well-recognised by the users and the Group has developed a mature strategy in monitoring and controlling the production costs, the Group's gross profit margin increased from approximately 72% to approximately 78% during last year.

### SMOOTH PROGRESSES ON PRODUCT R&D

Progress has been made on the product development jointly conducted by the Group and the Centre for the Biochemical Control of Agricultural Products under the China Agricultural University and other research organizations. During the period under review, the development of PGRs designated for rice and tobacco have been completed. Commercial production commenced in early May 2000. Development of other new products, including PGRs for edible fungi, flowers, corn and oil seeds have been proceeding very smoothly. It is expected that the development of PGRs for fungi and flowers will be completed by the end of 2000 and production will commence in mid-2001, while development of PGRs for corn and oil seeds will be completed by the end of 2001 and production will commence in mid-2002.

### FUTURE PROSPECTS

Following the entry of the Mainland China into the World Trade Organisation ("WTO"), it is expected that there will be an influx of agricultural products from overseas. In the long term, the quality of agricultural products in the Mainland China need to be improved in order to remain competitive in the market. The Board believes that under such market force, the Group will achieve further growth and development due to its high quality products, advanced technology and effective marketing strategies. On the other hand, the Group will face challenges from agricultural technology product suppliers overseas. Therefore, the Group will aim to consolidate its market share in the industry in order to maintain its leading position in the PGR industry in the Mainland China by way of developing hi-tech and environmental-friendly new products and strengthening its marketing network.

Regarding new business areas, the Group is actively considering to develop new products, such as biological fertilizers, biological pesticides and plant-based pesticides. The Group is now preparing feasibility reports on the research and development and analysis of such projects.

In respect of research and development, in order to leverage on the latest trends in the industry and to procure the training of professionals, the Group has been cooperating with leading research units in the Mainland China on its technical researches, namely, the Centre for the Biochemical Control of Agricultural Products under the China Agricultural University, with an aim to develop new products that can meet demand in the market.

The Group is optimistic about its future prospects. Its objective is to maintain its leading position in the PGR industry in the Mainland China, as well as to further develop hi-tech and environmental-friendly new products, strengthening its marketing networks, thereby sustaining strong and stable development in future.

**Wu Shaoning**

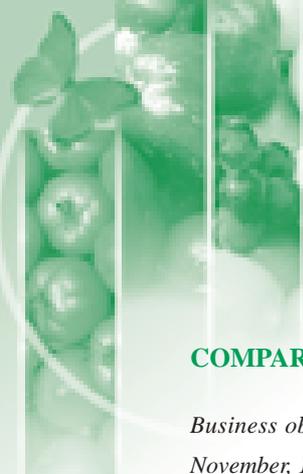
*Chairman*

Hong Kong, 25th September, 2000

## BUSINESS OBJECTIVES REVIEW

### COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

<i>Business objectives as stated in the prospectus dated 16th November, 1999</i>	<i>Actual business progress/ change in business objectives (if any)</i>
<p>PGRs for rice and tobacco are in their final stages of development and commercial production of the above products is expected to commence in March 2000.</p>	<p>Commercial production of PRGs for rice and tobacco commenced in early May 2000.</p>
<p>In September 1999, the Group signed a non-binding letter of intent with Fuzhou Cangshan Hi-Tech Science Park Management Office for the acquisition of the land use rights to a vacant site of approximately 20,000 sq.m. at Fuzhou Cangshan Hi-Tech Science Park in Fuzhou, Fujian Province for a consideration of RMB8.4 million.</p>	<p>Having considered the development costs and the scale of its future operations, the Group has not proceeded with the original letter of intent and no deposit was paid or forfeited in that respect. Instead, the Group has signed a contract with HuiAn Chengnan Central Industrial District Development Co., Ltd. for the acquisition of the land use rights to another vacant site of approximately 60,000 sq.m. at HuiAn Economic Development District, Fujian Province at a consideration of RMB9 million, of which approximately RMB6 million was paid before 30th June, 2000 and a further RMB2 million was paid in July 2000, and were financed by the net proceeds of the share offer in November 1999. The remaining balance of approximately RMB1 million will be settled by the end of 2000.</p>
<p>A new production facility comprising a production plant, a warehouse and an office building will be established on the aforesaid Fuzhou site. The Group expects construction to commence in December 1999 and be completed by February 2000. The acquisition cost of the Fuzhou site and the construction cost of the new production facility on such site are estimated to be approximately HK\$15 million.</p>	<p>The new production facility has been established on the HuiAn site. The construction work has been completed in May 2000. Apart from the RMB9 million for the acquisition of land use rights as mentioned above, the Group has also signed contracts for plant construction works with total contract sum amounting to approximately RMB9 million, of which approximately RMB6 million has been paid and was financed by the net proceeds of the share offer. The remaining balance of approximately RMB3 million will be settled upon finalisation of the contract sums with the contractors and be financed by the net proceeds of the share offer.</p>
<p>Four production lines, one for PGR for fruits, one for PGR for tobacco and two for PGR for rice, will be acquired with total estimated cost of establishment of approximately HK\$20 million. The four new production lines are expected to commence commercial production in March 2000. The Group's total annual production capacity will then be increased from 560 tonnes to 1,680 tonnes of PGRs.</p>	<p>The Group signed contracts with suppliers of different parts of the four production lines with total contract sum amounting to approximately RMB23 million which was paid and was financed by the net proceeds of the share offer. The construction and installation of the four production lines was completed in April 2000. The Group's total annual production capacity has been increased from 560 tonnes to 1,680 tonnes of PGRs.</p>



## BUSINESS OBJECTIVES REVIEW *(Continued)*

### COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(Continued)*

*Business objectives as stated in the prospectus dated 16th November, 1999*

The Group plans to employ approximately 100 additional sales staff and incur approximately HK\$7 million for its hiring of additional sales staff and advertising and promotion activities particularly in relation to the two new PGRs for tobacco and rice to be launched during the second half of the year ending 30th June, 2000.

The total cost for research and development of four new PGRs for fungi, flowers, corn and oil seeds are estimated to be approximately HK\$10 million, out of which about HK\$6 million is expected to be incurred during the year ending 30th June, 2001. The Group has not set aside funds for research and development for the year ending 30th June, 2000.

*Actual business progress/ change in business objective (if any)*

The Group has already hired an additional 98 sales staff. In addition, the Group has signed a contract with a business advertising and promotion services company for nationwide advertising and promotion activities in relation to the marketing of the two new PGRs for tobacco and rice in the Mainland China, with the contract sum amounting to RMB7.6 million, of which RMB3.8 million has been paid before 30th June, 2000 and the remaining RMB3.8 million was paid in July 2000, and were financed by the net proceeds of the share offer. The Group has also completed the establishment of an internet website for product promotion, the cost of which is included in the contract sum of RMB7.6 million. The Group has also incurred approximately RMB2 million for other advertising and promotion activities such as newspaper advertising and demonstration video.

The Group has started cooperation with three different research centres for such research and development works, including testing and conducting field experiment, with total contract sum amounting to approximately RMB10 million. Since initial research studies have started, in order to ensure that the targeted timing of launching the new products can be met, the Group has made progress payments of approximately RMB5 million, which was financed by the net proceeds of the share offer, to the research centres so as to speed up their work.

## PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Mr. Wu Shaoning**, aged 35, is the Chairman of the Group. He graduated from the University of Xiamen with a bachelor degree in politics and economics. Thereafter, he attended the Hong Kong Macau Economics Study Programme at the University of Hong Kong for one year and obtained a masters degree in economics from the University of Xiamen. Mr. Wu has over 9 years of experience in trading business and the agricultural chemicals industry in the Mainland China. Mr. Wu has been nominated as the director of 中國農作物化控專業委員會 (the Professional Crop Chemical Control Committee of China) in 1999. Mr. Wu is responsible for the overall management and operation of the Group, as well as its strategic planning and business development.

**Mr. Yang Zhuoya**, aged 35, is the Managing Director and responsible for research and development of the Group. He holds a doctorate degree in agricultural chemistry and plant nutrition. He has been nominated as the standing director of 福建省土壤肥料學會 (Soil and Fertilizer Academy of Fujian Province) for year 2000. Mr. Yang joined the Group in 1998 and is primarily responsible for the Group's product research and development, as well as overseeing its production operations.

**Mr. Tung Fai**, aged 39, is an Executive Director. He holds a bachelor degree in economics from the Jiangxi Finance Institute in the Mainland China and joined the Group in 1998. Mr. Tung is primarily responsible for the Group's strategic planning and investment activities.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Professor He Zhongpei**, aged 65, a Non-executive Director. She graduated from the Agronomy Department of China Agricultural University in 1957. She is presently a professor at the China Agricultural University, a member of the Agricultural Products Academic Committee, a member of the Professional Committee on Agricultural Products and Chemical Control of the National Association for the Promotion of Agricultural Technology, as well as a member of the editorial board of various agricultural publications. Professor He is also the author of 5 books and has published over 100 theses both nationally and internationally. Professor He was nominated as an Outstanding Female Scientist in the 4th International Women Conference in 1995 and an assistant director of the Professional Crop Chemical Control Committee of China in 1999.

**Mr. Lam Ming Yung**, aged 36, is a Non-executive Director. He graduated from the School of Law of Shanghai Eastern Chinese College of Politics and Jurisprudence in 1986 and was awarded the degree of bachelor of law. Mr. Lam started practicing law in 1987 in Fujian Province in the Mainland China, and moved to Hong Kong in mid-1993. He was registered as a foreign lawyer with the Hong Kong Law Society in 1995, and is presently in private practice with a Hong Kong solicitors firm.

### SENIOR MANAGEMENT

**Mr. Tong Hing Wah**, aged 29, is the financial controller, company secretary and qualified accountant of the Group. He graduated from the Hong Kong Polytechnic University with a bachelor degree in accountancy. He is also an associate member of the Hong Kong Society of Accountants and The Association of Chartered Certified Accountants. He has over 7 years of experience in auditing and accounting. Mr. Tong joined the Group in 1999 and is primarily responsible for supervision of the Group's accounting and financial reporting procedures and regulatory compliance.

**Mr. Chen Wen Ran**, aged 28, is the production manager of the Group. He graduated from Beijing Chemical Engineering University with a professional certificate in chemical engineering and has over 5 years' experience in chemical engineering equipment design and technology development. He joined the Group in March 2000.



## PROFILES OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

### SENIOR MANAGEMENT *(Continued)*

**Ms. Yeh Jing Ping**, aged 49, is the finance manager of the Group. She graduated from Fuzhou University with a bachelor degree in commerce and is also a qualified accountant in the Mainland China. She has over 16 years' experience in finance and accounting. She was formerly a finance manager of 福州電冰箱有限公司 (Fuzhou Refrigerator Company Limited) and a finance manager of 華榕超市集團有限公司 (Hua Yung Supermarket Group Limited) before she joined the Group in June 1998.

**Ms. Gu Xue Mei**, aged 28, is manager of the technology department of the Group. She graduated from Beijing Chemical Engineering University with a professional certificate in fine-chemical engineering and has over 5 years' experience in synthesizing and analysing chemical products. She began to assist Mr. Wu on the establishment of Xiamen Genben Fine Chemical Growth Company Limited in February 1997.

## REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their annual report and the audited financial statements of the Company and its subsidiaries (together the “Group”) for the year ended 30th June, 2000.

### CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted Company with limited liability on 9th September, 1999.

The Group underwent and completed a group reorganisation in preparation for the listing of the Company’s shares on The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited on 11th November, 1999. The shares of the Company have been listed on the GEM with effect from 25th November, 1999.

Details of the reorganization are set out in the Company’s prospectus published on 16th November, 1999.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacturing and selling of plant growth regulators in the Mainland China.

### RESULTS

The results of the Group for the year ended 30th June, 2000 are set out in the consolidated income statement on page 21. The Group’s turnover and contribution to the Group’s results for the year ended 30th June, 2000 are all derived from the Mainland China.

### DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 30th June, 2000.

### SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 18 to the financial statements.

### RESERVES

Details of the movements in the reserves of the Group during the year are set out in note 20 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 10 to the financial statements.

### BANK BORROWINGS

Details of the bank borrowings of the Group as at 30th June, 2000 are set out in note 24 to the financial statements.



## REPORT OF THE DIRECTORS *(Continued)*

### SUBSIDIARIES

Details of the Company's subsidiaries as at 30th June, 2000 are set out in note 12 to the financial statements.

### PENSION SCHEME

Details of the Group's pension scheme for the year ended 30th June, 2000 are set out in note 22 to the financial statements.

### CONNECTED TRANSACTIONS

During the year ended 30th June, 2000, the Group had the following connected transactions:

- (a) Pursuant to a patent assignment dated 13th September, 1999, Mr. Wu Shaoning, Chairman, assigned to the Group his rights and interests in the technical knowhow relating to the production of plant growth regulators produced by the Group together with patent application in respect thereof which was made to the Patents Registry in the Mainland China under the name of Mr. Wu on 16th July, 1999, at a consideration of approximately HK\$56,000.
- (b) Certain of the Group's banking facilities are secured by personal guarantees provided by Mr. Wu Shaoning and Mr. Tung Fai, directors of the Company.

### DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

#### **Executive Directors:**

Wu Shaoning ( <i>Chairman</i> )	(Appointed on 10th September, 1999)
Yang Zhuoya ( <i>Managing Director</i> )	(Appointed on 21st September, 1999)
Tung Fai	(Appointed on 10th September, 1999)

#### **Independent Non-executive Directors:**

He Zhongpei	(Appointed on 21st September, 1999)
Lam Ming Yung	(Appointed on 21st September, 1999)

In accordance with Article 87 of the Company's Articles of Association, Mr. Tung Fai retires and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

## REPORT OF THE DIRECTORS (Continued)

### DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company for a period of three years, (in the case of Mr. Wu Shaoning, ten years) commencing on 15th November, 1999.

Ms. He Zhongpei and Mr. Lam Ming Yung have been appointed as independent non-executive directors for a term of two years commencing on 15th November, 1999.

None of the directors being proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

### PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Profiles of Directors and senior management are set out on pages 9 and 10.

### DIRECTORS' INTERESTS

As at 30th June, 2000, the interests of the Directors in the securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept by the Company under section 29 of the SDI Ordinance were as follows:

#### China Agrotech Holdings Limited

Name of director	Personal interests	Number of Shares			Other interests	Total	Percentage of interests
		Family interests	Corporate interests				
Wu Shaoning	140,000,000 shares	Nil	Nil	Nil	140,000,000 shares	56%	
Tung Fai	28,000,000 shares	Nil	Nil	Nil	28,000,000 shares	11.2%	

The Company did not grant any right to subscribe for equity or debt securities of the Company to any director or chief executive of the Company or to the spouse or children under 18 years of age of any such director or chief executive as at 30th June, 2000.

### DIRECTORS' RIGHTS TO ACQUIRE SHARE OR DEBENTURES

The Company has a share option scheme under which the executive directors or employees of the Company and its subsidiaries are eligible to be granted options to subscribe for shares in the Company. No share option was granted during the year ended 30th June, 2000 or was outstanding at that date under this scheme.

Save as disclosed above, and other than in connection with the reorganisation scheme of the Group prior to the Company's listing of shares, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities (including debentures) of, the Company or any other body corporate and none of the directors or their associates had any rights to subscribe for securities of the Company, or had exercised any such rights.



## REPORT OF THE DIRECTORS *(Continued)*

### SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2000, except the two directors, who were also the management shareholders, of the Company as disclosed in the Directors' Interests section of this announcement, no person was beneficially interested in 10% or more of the nominal value of the issued share capital of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance.

Save as disclosed above, the Company had not been notified of any other interests representing 10% or more of the Company's issued share capital as at 30th June, 2000.

### DIRECTORS' INTEREST IN CONTRACTS

There were no contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisting at the end of the year or at any time during the year.

### MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

#### Purchases

- the largest supplier	24%
- five largest suppliers combined	62%

#### Sales

- the largest customer	28%
- five largest customers combined	41%

Save as disclosed in note 3 to the financial statements, none of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and five largest suppliers.

### SPONSOR'S INTERESTS

Except as described below, as at 30th June, 2000, ICEA Capital Limited ("ICEA"), the Company's sponsor, and its associates, directors and employees have no interest (as referred to in rule 6.36 of the GEM Listing Rules) in the Company.

Pursuant to the agreement dated 24th November, 1999 entered into between the Company and ICEA, ICEA will receive a fee for acting as the Company's retained sponsor for the period from 25th November, 1999 to 30th June, 2002.

### AUDIT COMMITTEE

The Company established an audit committee on 21st September, 1999 with written terms of reference in compliance with Rules 5.23 to 5.27 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee members are Ms. He Zhong Pei and Mr. Lam Ming Yung with Mr. Lam Ming Yung as Chairman of such committee. The audit committee has met four times since its establishment.

## REPORT OF THE DIRECTORS *(Continued)*

### YEAR 2000 COMPLIANCE

The Board of Directors is pleased to announce that all accounting and financial applications of the Group were fully year 2000 compliant, and therefore the Year 2000 compliance issue did not create any material adverse impact on the business of all functional areas of the Group.

### PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands.

### AUDITORS

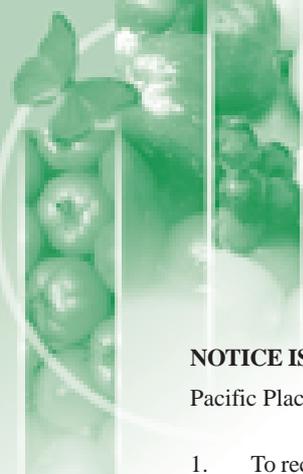
The accompanying financial statements were jointly audited by Messrs. Arthur Andersen & Co and Charles Chan, Ip & Fung CPA Ltd. A resolution for the re-appointment of Messrs. Arthur Andersen & Co and Charles Chan, Ip & Fung CPA Ltd. as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Wu Shaoning**

*Chairman*

Hong Kong, 25th September, 2000



## NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

**NOTICE IS HEREBY** given that the first annual general meeting of the Company will be held at Salon 1, 3/F JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong on 3rd November, 2000 at 10:00 a.m. for the following purposes:-

1. To receive and consider the audited financial statements of the Company and the Reports of the Directors and the Auditors for the year ended 30th June, 2000;
2. To re-elect Directors and to authorise the Board of Directors to fix the remuneration of Directors;
3. To appoint auditors and to authorise the Board of Directors to fix their remuneration; and
4. As special business, to consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:

**A. “THAT:**

- (a) Subject to paragraph (c) below, the exercise by the Directors of the Company during Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for shares, which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) The approval in paragraph (a) above shall be in addition to any other authorisation given to the Directors of the Company and shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options, including warrants to subscribe for shares, which might require the exercise of such powers after the end of the Relevant Period;
- (c) The aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to a Rights Issue (as hereinafter defined) or any issue of shares of the Company on the exercise of the subscription rights attaching to any warrants which may be issued by the Company from time to time or the exercise of the options granted under the share option scheme of the Company or an issue of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution, and the said approval shall be limited accordingly; and
- (d) For the purpose of this resolution:

“Relevant Period” means the period from the passing of the this resolution until whichever is the earliest of:

  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and

## NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

- (iii) the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this resolution.

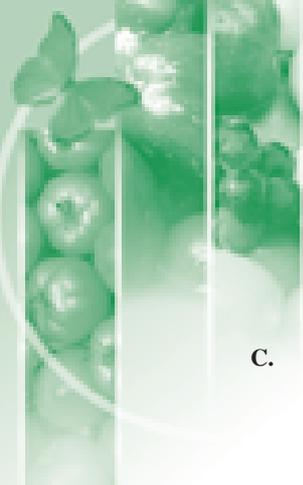
“Right Issue” means an offer of shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

### **B. “THAT:**

- (a) Subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase securities of the Company on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) The aggregate nominal amount of securities authorised to be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution and the said approval shall be limited accordingly; and
- (c) For the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and
- (iii) the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this resolution.”



## NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

- C. “**THAT** conditional on the passing of the resolutions set out in paragraph 4A and 4B of the notice convening this meeting, the general mandate granted to the Directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares pursuant to the resolution set out in paragraph 4A of the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to the resolution set out in paragraph 4B of the notice convening this meeting provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of the said resolution.”

By Order of the Board

**Wu Shaoning**

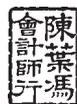
*Chairman*

Hong Kong, 25th September, 2000

*Notes:*

1. Any member entitled to attend and vote at the above meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power or authority must be deposited at the Company's principal place of business in Hong Kong at Room 2906, 29th Floor, China Resources Building, 26 Harbour Road, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.
3. The Register of Members of the Company will be closed from 1st November, 2000 to 2nd November, 2000 (both dates inclusive) during which period no transfer of shares will be registered. In order to ascertain the entitlement to attendance at the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, HKSCC Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not later than 4:00 p.m. on 31st October, 2000, for registration.
4. Concerning resolution 4B above, the explanatory statement containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against the resolution to approve the repurchase by the Company of its own shares, as required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, will be set out in a separate letter from the Company to be enclosed with the annual report 2000.

## AUDITORS' REPORT



**Charles Chan, Ip & Fung CPA Ltd.**  
Certified Public Accountants  
陳葉馮會計師事務所有限公司

**Arthur Andersen & Co**  
21st Floor Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

**Charles Chan, Ip & Fung CPA Ltd.**  
37/F., Hennessy Centre  
500 Hennessy Road  
Causeway Bay  
Hong Kong

**Auditors' Report to the Shareholders of**  
**CHINA AGROTECH HOLDINGS LIMITED**  
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 21 to 46 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.



## AUDITORS' REPORT

### OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 30th June, 2000 and of the profit and cash flows of the group for the year then ended, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**ARTHUR ANDERSEN & CO**

*Certified Public Accountants*

**CHARLES CHAN, IP & FUNG CPA LTD.**

*Certified Public Accountants*

**Chan Wai Dune, Charles**

*Practising Certified Number P00712*

Hong Kong, 25th September, 2000.

## CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30TH JUNE, 2000  
(Expressed in Hong Kong dollars)

	<i>Notes</i>	<b>2000</b> \$'000	<b>1999</b> \$'000
Turnover	3 & 4	86,732	21,065
Cost of sales		(18,958)	(5,961)
Gross profit		67,774	15,104
Selling and distribution expenses		(18,545)	(3,259)
General and administrative expenses	3	(17,128)	(2,581)
Profit from operations		32,101	9,264
Interest income		2,768	2
Interest expense		(1,074)	—
Profit before taxation	5	33,795	9,266
Taxation	7	(1,640)	(286)
Profit after taxation but before minority interests		32,155	8,980
Minority interests		(2,147)	(3,458)
Profit attributable to shareholders	8	30,008	5,522
Retained profit, beginning of year		1,921	692
Transfer to statutory reserve		—	(293)
Elimination of goodwill	21.b	(13,068)	—
Dividends		—	(4,000)
Retained profit, end of year		18,861	1,921
Earnings per share - Basic	9	13.6 cents	3.2 cents

## CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 30TH JUNE, 2000  
(Expressed in Hong Kong dollars)

	<i>Note</i>	<b>2000</b> \$'000	<b>1999</b> \$'000
Net gains not recognised in the consolidated income statement			
- Translation adjustments	20	255	13
Profit attributable to shareholders		<u>30,008</u>	<u>5,522</u>
Total recognised gains		30,263	5,535
Elimination of goodwill arising from acquisition of additional interest in a subsidiary	21.b	<u>(13,068)</u>	<u>—</u>
		<u>17,195</u>	<u>5,535</u>

## BALANCE SHEETS

AS AT 30TH JUNE, 2000  
(Expressed in Hong Kong dollars)

	Note	Consolidated		Company
		2000 \$'000	1999 \$'000	2000 \$'000
<b>Non-current assets</b>				
Property, plant and equipment	10	38,298	1,544	—
Development expenditures	11	4,204	1,519	—
Investment in subsidiaries	12	—	—	92,686
Total non-current assets		42,502	3,063	92,686
<b>Current assets</b>				
Inventories	13	1,837	307	—
Accounts receivable	3	9,759	848	—
Loan receivable	14	8,000	—	—
Prepayments, deposits and other current assets	15	3,268	270	210
Due from directors	16	100	2,558	—
Due from a related company		—	125	—
Dividend receivable from a subsidiary		—	—	4,000
Pledged bank deposits	17	41,021	—	6,021
Other cash and bank deposits	17	56,744	169	5,182
Total current assets		120,729	4,277	15,413
<b>Current liabilities</b>				
Short-term bank borrowings	24	(46,988)	—	(14,000)
Accounts payable		(4,635)	—	—
Accruals and other payables		(10,645)	(1,306)	(1,267)
Taxation payable		(1,926)	(286)	—
Total current liabilities		(64,194)	(1,592)	(15,267)
Net currents assets		56,535	2,685	146
Total assets less current liabilities		99,037	5,748	92,832
<b>Minority interests</b>				
Net assets		99,037	3,618	92,832
<b>Capital and reserves</b>				
Share capital	18	25,000	1,388	25,000
Reserves	20	55,176	309	64,951
Retained profit		18,861	1,921	2,881
Shareholders' equity		99,037	3,618	92,832

Approved by the Board of Directors on 25th September, 2000:

**Wu Shaoning**  
Director

**Tung Fai**  
Director

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30TH JUNE, 2000  
(Expressed in Hong Kong dollars)

	<i>Note</i>	<b>2000</b> \$'000	<b>1999</b> \$'000
<b>Net cash inflow from operating activities</b>	21.a	38,509	6,020
<b>Returns on investments and servicing of finance</b>			
Interest received		2,768	2
Interest paid		(1,074)	—
Dividends paid to a minority shareholder of a subsidiary		(3,545)	(2,426)
Dividends paid to shareholders		—	(4,000)
		<u>(1,851)</u>	<u>(6,424)</u>
<b>Investing activities</b>			
Additions of property, plant and equipment		(38,567)	(80)
Additions of development expenditures		(3,177)	—
Proceeds from disposal of property, plant and equipment		1	—
Acquisition of additional interest in a subsidiary	21.b	(13,800)	—
Increase in pledged bank deposits		(35,000)	—
Increase in loan receivable		(8,000)	—
Increase in prepayments, deposits and other current assets		(760)	—
Translation adjustments		29	7
		<u>(99,274)</u>	<u>(73)</u>
Net cash outflow before financing activities		<u>(62,616)</u>	<u>(477)</u>
<b>Financing</b>	21.c		
Proceeds from issue of shares		90,000	—
Share issuance expenses		(11,776)	—
Proceeds from issue of ordinary shares by a subsidiary		—	388
New short-term bank borrowings		32,988	—
		<u>111,212</u>	<u>388</u>
Increase (Decrease) in cash and cash equivalents		48,596	(89)
Cash and cash equivalents, beginning of year		169	258
Cash and cash equivalents, end of year	21.e	<u>48,765</u>	<u>169</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 1. GROUP REORGANISATION AND BASIS OF PRESENTATION

China Agrotech Holdings Limited (“the Company”) was incorporated in the Cayman Islands on 9th September, 1999 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company’s shares have been listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since 25th November, 1999.

On 11th November, 1999, the Company became the holding company of the other companies comprising the group pursuant to a group reorganisation (“the Reorganisation”). The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the years ended 30th June, 1999 and 2000, rather than from the date on which the Reorganisation was completed.

No balance sheet of the Company as at 30th June, 1999 is presented as it was incorporated subsequent to that date.

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacturing and selling of plant growth regulators in Mainland China.

## 2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

### a. **Basis of measurement**

The financial statements have been prepared on the historical cost basis.

### b. **Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

### c. **Goodwill**

Goodwill arising on acquisition of subsidiaries, representing the excess of the cost of acquisition over the Group’s share of the fair value of the separable net assets of the subsidiaries acquired, is eliminated against available reserves/retained profit in the period of acquisition. Upon disposal of interests in subsidiaries, the underlying goodwill previously eliminated is reversed and included as investment cost in determining gain or loss on disposal.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### d. **Subsidiaries**

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment. In the Company's financial statements, investment in subsidiaries is stated at cost less provision for impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable.

#### e. **Equity joint ventures**

An equity joint venture is a joint venture in which the joint venture partners' shares of profit and net assets upon the expiration of the joint venture period are in proportion to their equity interests as set out in the joint venture agreement. An equity joint venture is accounted for as a subsidiary if the Group owns more than 50% the joint venture and is able to govern and control its financial and operating policies and its board of directors.

#### f. **Turnover and revenue recognition**

Turnover represents the net invoiced value (excluding value-added tax) of merchandise sold after allowances for returns and discounts.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognised when the merchandise is delivered and title has passed. Interest income is recognised on a time proportion basis on the principal outstanding and at the rates applicable.

#### g. **Taxation**

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

#### h. **Advertising and promotion costs**

The costs of advertising and promotion are expensed in the period in which they are incurred.

#### i. **Staff retirement benefits**

The costs of staff retirement benefits are recognised as an expense in the period in which they are incurred.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

j. **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

k. **Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of property, plant and equipment which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold land	2% (lease term)
Buildings	5%
Machinery	20%
Furniture and office equipment	20%
Motor vehicles	20%

Gains or losses on disposal of property, plant and equipment are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

l. **Research and development costs**

Research costs are written off as incurred. Development costs incurred on specific projects are carried forward when recoverability can be foreseen with reasonable assurance, and are amortised based on the expected sales amount from such projects. All other development costs are written off as incurred.

m. **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method of costing and includes costs incurred in bringing the goods to their present location and condition. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction of expense in the period in which the reversal occurs.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### n. Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

#### o. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations (“functional currencies”). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into their respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statement of the individual companies.

The Group prepares the consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; income and expense items are translated into Hong Kong dollars at the average applicable rates during the year. Exchange differences arising from such translation are dealt with as movements of cumulative translation adjustments.

### 3. RELATED PARTY TRANSACTIONS

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

a. Particulars of significant transactions between the Group and related parties during the year are as follows:

	<b>2000</b>	<b>1999</b>
	<i>\$'000</i>	<i>\$'000</i>
Sales made to China (Fujian) Chaoda Group <sup>(i)</sup>	24,691	6,139
License fees paid/payable to China (Fujian) Chaoda Group <sup>(i)</sup>	867	187
Purchase of patent from Mr. Wu Shaoning, a director of the Company <sup>(ii)</sup>	56	—
	<u>56</u>	<u>—</u>

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 3. RELATED PARTY TRANSACTIONS *(Continued)*

*Notes -*

- (i) China (Fujian) Chaoda Group was controlled by Mr. Kwok Ho, a former director of Loyal Faith International Industrial Limited, a subsidiary of the Company. Mr. Kwok resigned as a director of the above-mentioned subsidiary effective from 8th September, 1999. Also, Ms. Chiu Na Lai, spouse of Mr. Kwok Ho, was a director of Yut Yat Company Limited and Topmart Limited, subsidiaries of the Company. Ms. Chiu Na Lai resigned as a director of the above-mentioned subsidiaries effective from 10th September 1999.

The license fees payable to China (Fujian) Chaoda Group were approximately \$187,000 (equivalent of Rmb 200,000) for the year ended 30th June, 1999 and, thereafter are determined at 1% of the Group's turnover, according to two trade mark license agreements between Xiamen Genben Fine Chemical Industry Co., Ltd. and Fuzhou Topmart Plant Growth Co., Ltd., subsidiaries of the Company, and a subsidiary of China (Fujian) Chaoda Group for a fixed term of 25 years ending June 2023 to July 2024.

- (ii) Pursuant to a patent assignment dated 13th September, 1999, Mr. Wu Shaoning, a director of the Company, assigned to the Company his rights and interests in the technical knowhow relating to the production of plant growth regulators produced by the Group together with a patent application in respect thereof which was made to the Patents Registry in the Mainland China under the name of Mr. Wu on 16th July, 1999, at a consideration of approximately HK\$56,000.
- b. As at 30th June, 2000, approximately \$2,743,000 (1999 - \$300,000) of the Group's accounts receivable is due from China (Fujian) Chaoda Group.
- c. As at 30th June, 2000, the amounts due from Mr. Wu Shaoning and Mr. Yang Zhuoya, directors of the Company, of approximately \$69,000 and \$31,000 respectively, were unsecured, non-interest bearing and repayable on demand.
- d. Certain of the Group's banking facilities are secured by, among others, personal guarantees provided by Mr. Wu Shaoning and Mr. Tung Fai, directors of the Company (see Note 24).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 4. TURNOVER AND REVENUE

Analysis of turnover and revenue in the consolidated income statement is as follows:

	<b>2000</b>	<b>1999</b>
	\$'000	\$'000
Turnover - sales of plant growth regulators	86,732	21,065
Interest income	2,768	2
Total revenue	<u>89,500</u>	<u>21,067</u>

### 5. PROFIT BEFORE TAXATION

Profit before taxation in the consolidated income statement is determined after charging and crediting the following items:

	<b>2000</b>	<b>1999</b>
	\$'000	\$'000
<b>After charging -</b>		
Staff costs (including directors' emoluments)	5,239	1,572
Research and development costs written off	4,603	1,108
Amortisation of development expenditures	614	506
Advertising and promotion expenses	5,839	69
Interest on bank borrowings wholly repayable within five years	1,074	—
Operating lease rentals in respect of rented premises	1,413	346
Provision for bad and doubtful debts	491	—
Depreciation of property, plant and equipment	1,915	513
Loss on disposal of property, plant and equipment	1	141
Net exchange loss	116	—
Auditors' remuneration	629	130
	<u>          </u>	<u>          </u>
<b>After crediting -</b>		
Interest income from		
- bank deposits	2,512	2
- subscription monies*	256	—
	<u>          </u>	<u>          </u>

\* During the period from 19th November, 1999 to 24th November, 1999, approximately \$256,000 interest was earned on the subscription monies received pursuant to an initial public offering and placing of the Company's shares.

**NOTES TO THE FINANCIAL STATEMENTS** *(Continued)*  
(Amounts expressed in Hong Kong dollars unless otherwise stated)

**6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS**

a. Details of directors' emoluments are:

	<b>2000</b>	<b>1999</b>
	<i>\$'000</i>	<i>\$'000</i>
Fees for executive directors	—	—
Fees for non-executive directors	70	—
Other emoluments for executive directors		
- Basic salaries and allowances	1,290	210
- Contribution to provident fund	—	19
Other emoluments for non-executive directors	—	—
	<u>1,360</u>	<u>229</u>

No director waived any emoluments during the year. No emoluments were incurred as inducement to join or upon joining the Group.

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	<b>2000</b>	<b>1999</b>
Executive directors		
- Nil to \$1,000,000	3	3
Non-executive directors		
- Nil to \$1,000,000	<u>2</u>	<u>—</u>
	<u>5</u>	<u>3</u>

During the year ended 30th June, 2000, the three executive directors received individual emoluments of approximately \$320,000 (1999 - \$90,000), \$590,000 (1999 - \$60,000) and \$380,000 (1999 - \$60,000), respectively. Each of the two non-executive directors received individual fees of \$35,000 (1999 - Nil).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

b. Details of emoluments paid to the five highest paid individuals (including directors and other employees) are:

	<b>2000</b>	<b>1999</b>
	\$'000	\$'000
Basic salaries and allowances	1,897	390
Contribution to provident fund	—	57
	<u>1,897</u>	<u>447</u>

Three (1999 - three) of the highest paid individuals are directors of the Company, whose emoluments are included in Note 6.a above.

The remuneration of each of the highest paid individuals falls within the band of Nil to \$1,000,000 during the years ended 30th June, 1999 and 2000.

During the year ended 30th June, 2000, no emoluments of the five highest paid individuals (including executive directors and other employees) were incurred as inducement to join or upon joining the Group or as compensation for loss of office.

### 7. TAXATION

Taxation in the consolidated income statement consists of:

	<b>2000</b>	<b>1999</b>
	\$'000	\$'000
Current taxation		
- Mainland China enterprise income tax	<u>1,640</u>	<u>286</u>

The Company is exempted from taxation in the Cayman Islands until 2019.

Xiamen Genben Fine Chemical Industry Co., Ltd. ("Xiamen Genben"), a subsidiary established and operated in a special economic region of Mainland China, is subject to Mainland China enterprise income tax at a rate of 15%. However, it is exempted from income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. The tax exemption period of Xiamen Genben expired on 31st December, 1998 and it is subject to Mainland China enterprise income tax at a rate of 7.5% from 1st January, 1999 to 31st December, 2001.

Fuzhou Topmart Plant Growth Co., Ltd. ("Fuzhou Topmart"), a subsidiary established and operated in Fuzhou, is subject to Mainland China enterprise income tax at a rate of 33%. However, it is exempted from income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. During the period from 6th July, 1999 (date of incorporation) to 30th June, 2000, Fuzhou Topmart was in its first year of profitable operations and accordingly, no Mainland China enterprise income tax has been provided.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### **7. TAXATION** *(Continued)*

No provision for Hong Kong profits tax has been made as the Group had no assessable profit in Hong Kong.

### **8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The consolidated profit attributable to shareholders included a profit of approximately \$2,881,000 dealt with in the financial statements of the Company.

### **9. EARNINGS PER SHARE**

The calculation of basic earnings per share for the year ended 30th June, 2000 is based on the profit attributable to shareholders of approximately \$30,008,000 (1999 - \$5,522,000) and the weighted average of approximately 219,877,000 (1999 - 175,000,000) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 30th June, 1999 and 2000 is not presented because there were no dilutive potential ordinary shares in existence during the years.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 10. PROPERTY, PLANT AND EQUIPMENT

a. Movements of property, plant and equipment (consolidated) are:

	2000				1999	
	Land and buildings	Machinery	Furniture and office equipment	Motor vehicles	Total	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost</b>						
Beginning of year	—	2,364	—	—	2,364	2,515
Additions	15,379	21,864	245	1,079	38,567	80
Disposals	—	(4)	—	—	(4)	(235)
Translation adjustments	41	71	—	1	113	4
End of year	15,420	24,295	245	1,080	41,040	2,364
<b>Accumulated depreciation</b>						
Beginning of year	—	820	—	—	820	400
Provision for the year	165	1,608	33	109	1,915	513
Disposals	—	(2)	—	—	(2)	(94)
Translation adjustments	—	9	—	—	9	1
End of year	165	2,435	33	109	2,742	820
<b>Net book value</b>						
End of year	15,255	21,860	212	971	38,298	1,544
Beginning of year	—	1,544	—	—	1,544	2,115

**NOTES TO THE FINANCIAL STATEMENTS** *(Continued)*  
(Amounts expressed in Hong Kong dollars unless otherwise stated)

**10. PROPERTY, PLANT AND EQUIPMENT** *(Continued)*

b. Details of the net book value of land and buildings (consolidated) are:

	<b>2000</b>	<b>1999</b>
	<i>\$'000</i>	<i>\$'000</i>
Mainland China - medium term leases	15,255	—
	<u>15,255</u>	<u>—</u>

The land and buildings represent the Group's factory premises located in HuiAn Economic Development District, Fuzhou, Fujian Province, Mainland China, on a parcel of land held under a land use right of 50 years expiring in 2050.

**11. DEVELOPMENT EXPENDITURES**

Development expenditures represent development costs incurred relating to projects which are in commercial production. Movements of development expenditures are:

	<b>2000</b>	<b>1999</b>
	<i>\$'000</i>	<i>\$'000</i>
Beginning of year	1,519	2,022
Additions	3,177	—
Amortisation	(614)	(506)
Translation adjustments	122	3
	<u>4,204</u>	<u>1,519</u>
End of year	<u>4,204</u>	<u>1,519</u>

**12. INVESTMENT IN SUBSIDIARIES**

In the Company's balance sheet, investment in subsidiaries consists of:

	<b>2000</b>
	<i>\$'000</i>
Unlisted shares	11,727
Due from subsidiaries	80,959
	<u>92,686</u>
	<u>92,686</u>

The amounts due from subsidiaries are unsecured and non-interest bearing. The Company has agreed not to demand repayment from the subsidiaries until the subsidiaries are financially capable of doing so.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 12. INVESTMENT IN SUBSIDIARIES (Continued)

The underlying value of the investment in subsidiaries is, in the opinion of the Company's Directors, not less than the carrying value as at 30th June, 2000. Details of the subsidiaries as at 30th June, 2000 are:

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest attributable to the Group (i)	Principal activities
Yut Yat Company Limited	British Virgin Islands	US\$60,000	100%	Investment holding
Loyal Faith International Industrial Limited	Hong Kong	\$1,000,000	100%	Investment holding
Topmart Limited	Hong Kong	\$2	100%	Investment holding
Xiamen Genben Fine Chemical Industry Co., Ltd. (ii)	Mainland China	Rmb1,915,000 registered capital	100%	Manufacturing and selling of plant growth regulators
Fuzhou Topmart Plant Growth Co., Ltd. (iii)	Mainland China	\$1,200,000 registered capital	100%	Manufacturing and selling of plant growth regulators

Notes -

- (i) The shares of Yut Yat Company Limited are held directly by the Company. The shares of other subsidiaries are held indirectly.
- (ii) Xiamen Genben Fine Chemical Industry Co., Ltd. ("Xiamen Genben"; previously known as Xiamen Defeng Fine Chemical Industry Co. Ltd.) was a sino-foreign equity joint venture in Mainland China before April 2000. In April 2000, the Group acquired the remaining 37.33% interest in Xiamen Genben from the minority shareholder, and thereafter Xiamen Genben became a wholly foreign owned enterprise in Mainland China to be operated for 15 years until January 2013.
- (iii) Fuzhou Topmart Plant Growth Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 15 years until July 2014.

None of the subsidiaries had any loan capital in issue at any time during the year ended 30th June, 2000.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 13. INVENTORIES

Inventories (consolidated) consist of:

	<b>2000</b>	<b>1999</b>
	<i>\$'000</i>	<i>\$'000</i>
Raw materials	1,636	261
Work-in-progress	6	24
Finished goods	195	22
	<u>1,837</u>	<u>307</u>

### 14. LOAN RECEIVABLE

The loan receivable of \$8,000,000 (1999 - Nil) was unsecured, bore interest at 1.5% above HIBOR or Hong Kong prime lending rate, whichever was higher, and was repayable within one year. Such loan was repaid in September 2000.

### 15. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

Prepayments, deposits and other current assets consist of:

	<b>Consolidated</b>		<b>Company</b>
	<b>2000</b>	<b>1999</b>	<b>2000</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Interest receivable	1,852	—	138
Rental deposits	232	—	—
Other deposits and prepayments	424	270	72
Advance to an employee (i)	760	—	—
	<u>3,268</u>	<u>270</u>	<u>210</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 15. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS (Continued)

Note -

- (i) Details of the advance to an employee are as follows:

Name of the employee	As at 30th June, 2000 \$'000	As at 30th June, 1999 \$'000	Maximum amount outstanding during the year \$'000
So Siu Ping	<u>760</u>	<u>—</u>	<u>760</u>

The outstanding balance with the employee was unsecured, non-interest bearing and repayable on demand. Such advance was repaid in July 2000.

### 16. DUE FROM DIRECTORS

Details of amounts due from directors (consolidated) are as follows:

Name	As at 30th June, 2000 \$'000	As at 30th June, 1999 \$'000	Maximum amount outstanding during the year \$'000
Mr. Wu Shaoning	69	2,558	2,902
Mr. Yang Zhuoya	<u>31</u>	<u>—</u>	<u>31</u>
	<u>100</u>	<u>2,558</u>	

The outstanding balances with directors were unsecured, non-interest bearing and repayable on demand.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 17. CASH AND BANK DEPOSITS

Cash and bank deposits consist of:

	<b>Consolidated</b>		<b>Company</b>
	<b>2000</b>	<b>1999</b>	<b>2000</b>
	\$'000	\$'000	\$'000
Pledged bank deposits, denominated in			
- Hong Kong Dollars and United States Dollars	41,021	—	6,021
- Chinese Renminbi	—	—	—
	41,021	—	6,021
	41,021	—	6,021
Other cash and bank deposits, denominated in			
- Hong Kong Dollars and United States Dollars	40,415	24	5,182
- Chinese Renminbi	16,329	145	—
	56,744	169	5,182
	56,744	169	5,182

### 18. SHARE CAPITAL

	<b>Number of shares</b>	<b>Nominal value</b>
	'000	\$'000
Authorised (ordinary shares of \$0.10 each) -		
Incorporation of the Company (i)	1,000	100
The Reorganisation referred to in Note 1 (ii)	1,000	100
Increase in authorised share capital (iii)	498,000	49,800
	500,000	50,000
	500,000	50,000
Issued and fully paid (ordinary shares of \$0.10 each) -		
Issue of shares upon incorporation (i)	1,000	—
Issue of shares arising from the Reorganisation referred to in Note 1 (ii)	1,000	200
Issue of shares through public offering and placing (iv)	75,000	7,500
Capitalisation of share premium (v)	173,000	17,300
	250,000	25,000
	250,000	25,000

*Notes -*

- (i) On 9th September, 1999, the Company was incorporated with an authorised share capital of \$100,000, divided into 1,000,000 shares of \$0.10 each. On 10th September, 1999, one share was issued at par and was fully paid in cash, and the remaining 999,999 shares were issued at par, nil paid.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 18. SHARE CAPITAL *(Continued)*

- (ii) Pursuant to a shareholders' resolution passed on 11th November, 1999, the authorised share capital of the Company was increased from \$100,000 to \$200,000, by the creation of an additional 1,000,000 shares ranking *pari passu* with the then existing shares in all respects. On the same date, the 999,999 shares issued on 10th September, 1999 were credited as fully paid, and an additional 1,000,000 shares were issued at par and credited as fully paid, as consideration for the exchange of the entire issued share capital of Yut Yat Company Limited (see Note 1).
- (iii) Pursuant to a shareholders' resolution passed on 11th November, 1999, the authorised share capital of the Company was increased from \$200,000 to \$50,000,000, by the creation of an additional 498,000,000 shares ranking *pari passu* with the then existing shares in all respects.
- (iv) On 11th November, 1999, 75,000,000 shares of \$0.10 each were issued at \$1.20 per share through a public offering and a placing ("the New Issue"), resulting in net cash proceeds of approximately \$78,224,000.
- (v) Immediately after the New Issue, share premium of \$17,300,000 was capitalised for the issuance of 173,000,000 shares of \$0.10 each on pro-rata basis to the Company's shareholders before the New Issue.

The comparative figure of the Group's share capital as at 30th June, 1999 shown on the consolidated balance sheet represents the aggregate nominal value of the share capital of the Company's subsidiaries as at that date.

### 19. EMPLOYEE SHARE OPTIONS

The Company has an employee share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by a duly authorised committee of the board of directors which includes all the independent non-executive directors from time to time of the Company. The subscription price will not be less than the higher of the nominal value of the Company's shares and the average of the closing price of the shares quoted on the Growth Enterprise Market on the five trading days immediately preceding the date of offer of the options. As at 30th June, 2000, no option has been granted under the employee share option scheme.

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 20. RESERVES

Movements of reserves are:

	Share premium \$'000	Statutory reserves (i) \$'000	Capital reserve (ii) \$'000	Contributed surplus (iii) \$'000	Cumulative translation adjustments \$'000	Total \$'000
<b>Consolidated</b>						
Balance as at						
30th June, 1998	—	—	—	—	3	3
Transfer from retained						
profit to statutory reserves	—	293	—	—	—	293
Translation adjustments	—	—	—	—	13	13
Balance as at						
30th June, 1999	—	293	—	—	16	309
Premium on issue of						
ordinary shares <i>(Note 18)</i>	82,500	—	—	—	—	82,500
Share issuance expenses						
<i>(Note 18)</i>	(11,776)	—	—	—	—	(11,776)
Capitalisation of share						
premium <i>(Note 18)</i>	(17,300)	—	—	—	—	(17,300)
Effect of the						
Reorganisation <i>(Note 1)</i>	—	—	1,188	—	—	1,188
Translation adjustments	—	—	—	—	255	255
Balance as at						
30th June, 2000	53,424	293	1,188	—	271	55,176
<b>Company</b>						
Balance as at						
30th June, 1999	—	—	—	—	—	—
Premium on issue of						
ordinary shares <i>(Note 18)</i>	82,500	—	—	—	—	82,500
Share issuance						
expenses <i>(Note 18)</i>	(11,776)	—	—	—	—	(11,776)
Capitalisation of						
share premium <i>(Note 18)</i>	(17,300)	—	—	—	—	(17,300)
Effect of the Reorganisation						
<i>(Note 1)</i>	—	—	—	11,527	—	11,527
Balance as at						
30th June, 2000	53,424	—	—	11,527	—	64,951

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 20. RESERVES *(Continued)*

*Notes -*

- (i) As stipulated by regulations in Mainland China and pursuant to the provisions of the articles of association of Xiamen Genben Fine Chemical Industry Co., Ltd. ("Xiamen Genben") and Fuzhou Topmart Plant Growth Co., Ltd. ("Fuzhou Topmart"), subsidiaries operating in Mainland China, the appropriation of profit to the statutory surplus reserves is to be made pursuant to the recommendation of the subsidiaries' Boards of Directors until the balances of the statutory surplus reserve reach 50% of their share capitals and thereafter any further appropriation is optional. The statutory surplus reserves may be utilised to offset prior years' losses or for the issuance of bonus shares, but such statutory surplus reserve shall be maintained at a minimum of 25% of share capital after such issuance. As at 30th June, 2000, the statutory reserve represented the statutory surplus reserve of Xiamen Genben appropriated prior to 1st July, 1999. The Boards of Directors of Xiamen Genben and Fuzhou Topmart have determined that no appropriation to the statutory surplus reserves will be made for the year ended 30th June, 2000.
- (ii) Capital reserve represents (i) capital reserve of the subsidiaries, and (ii) the difference between the aggregate nominal amount of the share capital issued by the Company in exchange for the aggregate nominal amount of the share capital of subsidiaries as at 11th November, 1999, the date of the Reorganisation (see Note 1).
- (iii) The contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the Reorganisation (see Note 1).

The Company's reserves as at 30th June, 2000 available for distribution to shareholders are represented by the contributed surplus of approximately \$11,527,000 and retained profit of approximately \$2,881,000.

**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
(Amounts expressed in Hong Kong dollars unless otherwise stated)

**21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**

- a. Reconciliation of profit before taxation to net cash inflow from operating activities:

	<b>2000</b>	<b>1999</b>
	<i>\$'000</i>	<i>\$'000</i>
Profit before taxation	33,795	9,266
Interest income	(2,768)	(2)
Interest expense	1,074	—
Depreciation of property, plant and equipment	1,915	513
Amortisation of development expenditures	614	506
Loss on disposal of property, plant and equipment	1	141
(Increase) Decrease in inventories	(1,530)	757
Increase in accounts receivable	(8,911)	(615)
Increase in prepayments, deposits and other current assets	(2,238)	(177)
Decrease (Increase) in due from directors	2,458	(2,558)
Decrease (Increase) in due from a related company	125	(125)
Increase (Decrease) in accounts payable	4,635	(356)
Increase in accruals and other payables	9,339	350
Decrease in due to directors	—	(1,680)
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>38,509</u>	<u>6,020</u>

- b. Acquisition of additional interest in a subsidiary:

During the year ended 30th June, 2000, the Group acquired an additional 37.33% interest in Xiamen Genben Fine Chemical Industry Company Limited from the minority shareholder for cash consideration of approximately \$13,800,000. Details of the acquisition are as follows:

	<i>\$'000</i>
Underlying net assets shared by minority interests as at the date of acquisition	732
Goodwill	13,068
	<hr/>
Cash consideration paid	<u>13,800</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

c. Analysis of changes in financing is as follows:

	Short-term bank borrowings \$'000	Share capital and share premium \$'000
Balance as at 30th June, 1998	—	1,000
Issue of shares by a subsidiary	—	388
	<hr/>	<hr/>
Balance as at 30th June, 1999	—	1,388
Issue of shares through a public offering and a placing	—	90,000
Share issuance expenses	—	(11,776)
Share exchange upon the Reorganisation	—	200
Effect of the Reorganisation	—	(1,388)
New short-term bank borrowings, repayable within		
-three months	14,000	—
-more than three months	32,988	—
	<hr/>	<hr/>
Balance as at 30th June, 2000	<u>46,988</u>	<u>78,424</u>

d. Major non-cash transaction:

During the year ended 30th June, 2000, 1,999,999 ordinary shares of \$0.10 were issued and credited as fully paid in exchange for the entire issued share capital of Yut Yat Company Limited, a subsidiary.

e. Analysis of cash and cash equivalents is:

	2000 \$'000	1999 \$'000
Pledged bank deposits	6,021	—
Other cash and bank deposits	56,744	169
Short-term bank borrowings	(14,000)	—
	<hr/>	<hr/>
	<u>48,765</u>	<u>169</u>

## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. PENSION SCHEME

As stipulated by the rules and regulations in Mainland China, Xiamen Genben Fine Chemical Industrial Co., Ltd. and Fuzhou Topmart Plant Growth Co., Ltd., subsidiaries of the Company, are required to contribute to a state-sponsored retirement plan for their employees in Mainland China. The companies contribute to the state sponsored retirement plan approximately 21% of the basic salary of their employees, and have no further obligation for the actual pension payments or post-retirement benefits beyond the annual contributions. The state sponsored retirement plan is responsible for the entire pension obligations payable to retired employees. The Group's contributions for the years ended 30th June, 2000 amounted to approximately \$304,000, (1999 - \$601,000).

The other group companies do not have any pension scheme for their employees.

### 23. COMMITMENTS

#### a. Capital commitments

Capital commitments (consolidated) not provided for in the financial statements are analysed as follows:

	<b>2000</b>	<b>1999</b>
	<i>\$'000</i>	<i>\$'000</i>
Authorised and contracted for		
- purchase of property, plant and machinery	1,305	—
	1,305	—

#### b. Operating lease commitments

As at 30th June, 2000, the Group had aggregate outstanding operating lease commitments of approximately \$1,806,000 (1999 - \$1,462,000) in respect of rented premises under various non-cancellable operating lease agreements extending to July 2004. The commitments payable within the next twelve months are as follows:

	<b>2000</b>	<b>1999</b>
	<i>\$'000</i>	<i>\$'000</i>
Leases expiring		
- within one year	129	—
- within two to five years	1,113	276
	1,242	276



## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 24. BANKING FACILITIES

As at 30th June, 2000, the Group had aggregate facilities for short-term bank loans of approximately \$46,988,000 (1999 - Nil), which were fully utilised as at the same date. These facilities are secured by:

- a. the Group's bank deposits amounting to approximately \$41,021,000; and
- b. personal guarantees provided by Mr. Wu Shaoning and Mr. Tung Fai, directors of the Company (see Note 3.d).