

1 Principal accounting policies

The principal accounting policies adopted by China Agrotech Holdings Limited (the "Company") and its subsidiaries (the "Group") in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 17 (revised)	:	Property, plant and equipment
SSAP 18 (revised)	:	Revenue
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The Group also early adopted the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements

The effect of adopting these new standards is set out in the accounting policies detailed below.

(b) Group accounting

(i) Consolidation

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

As subsidiaries established in Mainland China adopt 31 December as their year end date, the management accounts of the subsidiaries as at and for the twelve months ended 30 June have been incorporated in the consolidated accounts after making adjustments as considered appropriate by the directors for compliance with accounting principles generally accepted in Hong Kong. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

1 Principal accounting policies *(continued)*

(b) Group accounting *(continued)*

(i) Consolidation *(continued)*

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and also any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves. Upon disposal of a foreign entity the related cumulative exchange difference is included in the profit and loss account as part of the gain or loss on disposal.

(c) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/operation at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 July 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 5 years.

Goodwill on acquisitions that occurred prior to 1 July 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However any impairment loss arising on such goodwill is accounted for in accordance with SSAP 31.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for acquisitions prior to 1 July 2001, the related goodwill is written off against reserves to the extent it has not previously been realised in the profit and loss account.

1 Principal accounting policies *(continued)*

(c) *Intangible assets (continued)*

(ii) *Research and development costs*

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved product for sale are recognised as intangible assets where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell the product that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years from the date when the product is available for sale to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iii) *Technical know-how*

Expenditure on acquired technical know-how is capitalised and amortised using the straight-line method over the useful life of 5 years, from the date when the technical know-how is available for use.

(iv) *Impairment of intangible assets*

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(d) *Fixed assets*

(i) *Construction-in-progress*

Construction-in-progress is stated at cost. Cost comprises all direct and indirect costs of construction. Construction-in-progress is transferred to fixed assets and depreciation commences when the construction is completed.

(ii) *Other fixed assets*

Other fixed assets, comprising leasehold land, buildings, machinery, furniture and office equipment, and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	5%
Machinery	20%
Motor vehicles	20%
Furniture and office equipment	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives.

1 Principal accounting policies *(continued)*

(d) *Fixed assets (continued)*

(iii) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(iv) *Impairment and gain or loss on sale*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(e) *Inventories*

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted-average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(f) *Accounts receivable*

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(g) *Cash and cash equivalents*

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and bank balances net of bank deposits pledged for banking facilities.

(h) *Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

1 Principal accounting policies *(continued)*

(i) *Contingent liabilities*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(j) *Deferred taxation*

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(k) *Revenue recognition*

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. Commission income is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Advance payments received from customers prior to the delivery of merchandise are recorded as receipts in advance.

(l) *Retirement benefit costs*

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

(m) *Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

1 Principal accounting policies *(continued)***(n) Advertising and promotion costs**

Costs of advertising and promotion are expensed as incurred.

(o) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format. The Group's operations are primarily in Mainland China and all of the Group's turnover is attributable to business conducted in Mainland China. Consequently, no geographical segment analysis is presented.

Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities consist primarily of operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets (note 11) and fixed assets (note 12), and deposits paid for purchase of machinery (note 13) and investment (note 14).

2 Turnover, revenues and segment information

The Group is principally engaged in the manufacturing and selling of plant growth regulatory products and trading of pesticides, fertilisers and other agricultural products in Mainland China. Revenues recognised during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales of plant growth regulatory products	190,467	163,835
Sales of pesticides, fertilisers and other agricultural products	158,824	23,326
	349,291	187,161
Other revenues		
Commission income	279	—
Interest income from bank deposits	1,733	5,108
	2,012	5,108
Total revenues	351,303	192,269

2 Turnover, revenues and segment information *(continued)*

(a) Primary reporting format – business segments

The Group is organised into two main business segments:

- Manufacturing operation – Manufacturing and selling of plant growth regulatory products
- Trading operation – Trading of pesticides, fertilisers and other agricultural products

(i) As at and for the year ended 30 June 2002

	Manufacturing operation HK\$'000	Trading operation HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover				
External sales	190,467	158,824	—	349,291
Inter-segment sales	4,337	—	(4,337)	—
	194,804	158,824	(4,337)	349,291
Segment results	88,461	(8,643)		79,818
Unallocated costs				(8,131)
Listing expenses				(6,500)
Interest income				933
Finance costs				(3,724)
Taxation				(400)
Minority interests				264
Profit attributable to shareholders				62,260
Segment assets	172,301	158,045		330,346
Unallocated assets				4,889
Total assets				335,235
Segment liabilities	(38,517)	(49,550)		(88,067)
Unallocated liabilities				(5,848)
Total liabilities				(93,915)
Capital expenditure	53,409	50,121		103,530
Depreciation and amortisation charge	10,808	1,845		12,653

2 Turnover, revenues and segment information *(continued)*

(a) Primary reporting format – business segments *(continued)*

(ii) As at and for the year ended 30 June 2001

	Manufacturing operation HK\$'000	Trading operation HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover				
External sales	163,835	23,326	—	187,161
Inter-segment sales	3,724	—	(3,724)	—
	167,559	23,326	(3,724)	187,161
Segment results	72,931	(1,469)	—	71,462
Unallocated costs				(8,164)
Interest income				5,108
Finance costs				(7,901)
Taxation				—
Minority interests				94
Profit attributable to shareholders				60,599
Segment assets	165,191	12,418	—	177,609
Unallocated assets				43,561
Total assets				221,170
Segment liabilities	(11,612)	(5,214)	—	(16,826)
Unallocated liabilities				(57,705)
Total liabilities				(74,531)
Capital expenditure	18,975	24,671	—	43,646
Depreciation and amortisation charge	7,569	316	—	7,885

(b) Secondary reporting format – geographical segments

The Group's operations are primarily in Mainland China and all of the Group's turnover is attributable to business conducted in Mainland China. Consequently, no geographical segment analysis is presented.

3 Operating profit

Operating profit is stated after charging the following:

	2002 HK\$'000	2001 HK\$'000
Research and development expenses	7,733	6,593
Amortisation of intangible assets		
Goodwill	1,604	—
Product development costs	2,184	1,298
Advertising and promotion expenses	15,110	18,826
Auditors' remuneration	830	835
Depreciation of owned fixed assets	8,865	6,587
Operating leases		
Land and buildings	3,755	1,611
Motor vehicles	217	217
Write-down of inventories	482	—
Provision for obsolete and slow-moving inventories	421	—
Provision for doubtful debts	1,545	457
Net exchange loss	189	292
Staff costs, including directors' emoluments (i)	8,663	6,462

- (i) Staff costs include provision for staff welfare and bonus fund of approximately HK\$504,000 (2001: HK\$326,000) provided by the Group's subsidiaries established in Mainland China (collectively "Mainland China Subsidiaries"). As stipulated by rules and regulations in Mainland China, the amount of provision for staff welfare and bonus fund is determined at the discretion of the respective boards of directors of Mainland China Subsidiaries. The fund can be utilised for special bonuses and providing collective welfare to the employees of Mainland China Subsidiaries.

4 Finance costs

	2002 HK\$'000	2001 HK\$'000
Arrangement fee for a bank loan	2,500	3,500
Interest expense on:		
Bank loans	1,147	4,401
Amounts due to minority shareholders of subsidiaries	77	—
	3,724	7,901

5 Listing expenses

The expenses of approximately HK\$6,500,000 are incurred in connection with the listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited.

6 Taxation

	2002 HK\$'000	2001 HK\$'000
Mainland China enterprise income tax	400	—

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

Mainland China enterprise income tax represents tax charges on the estimated assessable profits of the Mainland China Subsidiaries of the Group. Domestic enterprises of Mainland China are subject to a standard enterprise income tax rate of 33%. Productive foreign investment enterprises established in the special economic zones of Fujian, Mainland China, are subject to preferential enterprise income tax rates ranging from 15% to 24%.

Xiamen Genben Fine Chemical Industry Co., Ltd. ("Xiamen Genben"), Fuzhou Topmart Plant Growth Co., Ltd. ("Fuzhou Topmart") and Fujian Chaoda Topmart Plant Growth Co., Ltd. ("Fujian Chaoda"), being foreign investment enterprises established in a special economic zone of Fujian, Mainland China, are subject to preferential enterprise income tax rate of 15% or 24% and are entitled to full exemption from Mainland China enterprise income tax for two years starting from its first profit-making year followed by a 50% reduction for the next consecutive three years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China. Xiamen Genben was exempted from Mainland China enterprise income tax up to 31 December 1998 and it is subject to Mainland China enterprise income tax at a rate of 7.5% from 1 January 1999 to 31 December 2001 and 15% thereafter. Fuzhou Topmart was exempted from Mainland China enterprise income tax up to 31 December 2000 and it is subject to Mainland China enterprise income tax at a rate of 12% from 1 January 2001 to 31 December 2003. Both Xiamen Genben and Fuzhou Topmart recorded no provision for Mainland China enterprise income tax as they had no taxable profit during the year ended 30 June 2002 (2001: Nil). Fujian Chaoda was exempted from Mainland China enterprise income tax up to 31 December 2002 and, accordingly, no Mainland China enterprise income tax was payable.

The Group's subsidiaries engaging in the trading of pesticides, fertilisers and other agricultural products in Mainland China, being domestic enterprises of Mainland China, are subject to the standard enterprise income tax rate of 33%.

Majority of the Group's sales of plant growth regulatory products were carried out by Fuzhou Topmart and Fujian Chaoda, which are exempted from Mainland China value-added tax ("VAT") according to written approvals from relevant Mainland China tax bureaux. The Group's sales of pesticides, fertilisers and other agricultural products are exempted from VAT under Mainland China tax regulations.

No provision for Hong Kong profits tax has been made as there are no assessable profit (2001: Nil) for the subsidiaries operating in Hong Kong during the year.

There was no material unprovided deferred taxation for the year.

7 Profit attributable to shareholders

The profit attributable to shareholders includes a loss of approximately HK\$12,979,000 (2001: loss of approximately HK\$5,476,000) dealt with in the accounts of the Company.

8 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$62,260,000 (2001: HK\$60,599,000) and on the weighted average number of 263,549,000 (2001: 250,000,000) shares in issue during the year.

No information on diluted earnings per share is presented as the unlisted warrants (note 23) outstanding during the year had anti-dilutive effect.

9 Retirement benefit costs

Following the enforcement of the Hong Kong MPF Schemes Ordinance effective 1 December 2000, the Group operates a defined contribution MPF scheme for its Hong Kong employees. The Group contributes 5% of the employees' relevant income each month as defined in the MPF Schemes Ordinance, subject to a maximum of HK\$1,000 per person.

The Group also participates in the employee pension schemes of the respective municipal governments in various places in Mainland China where the Group operates. The Group is to make monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group. The Group's contributions to the schemes are expensed as incurred.

During the year, the aggregate amount of employer's contribution made by the Group was approximately HK\$369,000 (2001: HK\$291,000).

10 Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Executive directors:		
Fees	—	—
Basic salaries and allowances	1,505	1,616
Contribution to retirement schemes	24	14
Independent non-executive directors:		
Fees	120	120
Discretionary bonus	40	—
	1,689	1,750

The emolument of each of the above directors is less than HK\$1,000,000.

No directors waived any emoluments and no emoluments were paid or payable by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office during the year (2001: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2001: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2001: two) individuals during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries and allowances	1,120	919
Contribution to retirement schemes	21	14
	1,141	933

The emolument of each of these two individuals is less than HK\$1,000,000.

11 Intangible assets

	The Group			Total HK\$'000
	Goodwill (a) HK\$'000	Product development costs HK\$'000	Technical know-how (b) HK\$'000	
Cost:				
At 1 July 2001	—	10,262	—	10,262
Goodwill on acquisition	30,643	—	—	30,643
Development costs recognised as assets	—	5,128	—	5,128
Cost of acquisition	—	—	7,166	7,166
At 30 June 2002	30,643	15,390	7,166	53,199
Accumulated amortisation:				
At 1 July 2001	—	2,662	—	2,662
Amortisation charge	1,604	2,184	—	3,788
At 30 June 2002	1,604	4,846	—	6,450
Net book value:				
At 30 June 2002	29,039	10,544	7,166	46,749
At 30 June 2001	—	7,600	—	7,600

(a) Goodwill

During the year, the Group entered into arrangements with eight separate agricultural resources trading companies whereby the agricultural resources trading companies agreed to form joint ventures with the Group in carrying out trading operation of pesticides, fertilisers and other agricultural products. In connection with these arrangements, the agricultural resources trading companies transferred their businesses, which primarily consisted of customer base, into the joint ventures for an aggregate consideration of HK\$30,643,000 payable by the Group, of which approximately HK\$16,972,000 remained unpaid as at 30 June 2002. The aggregate consideration was recorded as goodwill.

(b) Technical know-how

During the year, the Group acquired the technical know-how relating to the production of fertilisers from an agricultural research centre in Mainland China for an aggregate consideration of approximately HK\$7,166,000, of which approximately HK\$2,451,000 remained unpaid as at 30 June 2002.

(c) The Company's directors and the Group's management reviewed and evaluated the recoverability of the carrying value of the intangible assets at 30 June 2002 and they are of the opinion that the underlying value of the intangible assets is not less than the carrying value at 30 June 2002.

12 Fixed assets

	The Group					Total HK\$'000
	Land and buildings (i) HK\$'000	Machinery HK\$'000	Furniture and office equipment HK\$'000	Motor vehicles HK\$'000	Construction-in- progress (ii) HK\$'000	
Cost:						
At 1 July 2001	17,920	33,942	288	1,782	26,085	80,017
Additions	72	142	84	217	26,139	26,654
Transfers	3,849	3,778	—	—	(7,627)	—
Disposals	(1,142)	—	—	—	—	(1,142)
Exchange adjustment	(4)	(6)	—	—	—	(10)
At 30 June 2002	20,695	37,856	372	1,999	44,597	105,519
Accumulated depreciation:						
At 1 July 2001	1,107	7,767	85	372	—	9,331
Charge for the year	1,514	6,929	61	361	—	8,865
Disposals	(1,142)	—	—	—	—	(1,142)
Exchange adjustment	—	(1)	—	—	—	(1)
At 30 June 2002	1,479	14,695	146	733	—	17,053
Net book value:						
At 30 June 2002	19,216	23,161	226	1,266	44,597	88,466
At 30 June 2001	16,813	26,175	203	1,410	26,085	70,686

12 Fixed assets *(continued)*

- (i) The land and buildings represent the Group's factory premises located in Hui An, Fujian Province, Mainland China, on a parcel of land held under a land use right for a period of 50 years up to June 2050.
- (ii) Analysis of construction-in-progress

	The Group	
	2002 HK\$'000	2001 HK\$'000
Construction costs of buildings	1,885	2,509
Costs of computer system under development *	42,712	23,576
	44,597	26,085

- * Capitalised costs of computer system represent progress payments to computer system consultants for development of a computer system for the Group's own use.

13 Deposits for purchase of machinery

During the year, the Group entered into agreements with certain third parties to purchase the machinery for production of BtA bio-pesticides (see note 14) for an aggregate consideration of approximately HK\$16,972,000, of which approximately HK\$11,314,000 was paid by the Group as deposits at 30 June 2002.

14 Investment deposit

In August 2000, the Group entered into an investment agreement with an agricultural bio-technology research centre in Mainland China ("the Biotechnology Research Centre") to form a joint venture in Mainland China for production of BtA bio-pesticide, a new type of biological pesticide based on the BtA technology developed by the Biotechnology Research Centre ("the BtA Technology"). According to the agreement, the Group paid an initial deposit of approximately HK\$16,975,000 in September 2000, in return for an exclusive right to negotiate with the Biotechnology Research Centre for the production of BtA bio-pesticide. The deposit would be injected into the joint venture as part of the Group's contribution if the joint venture was established. In the event that the joint venture could not be established before 31 May 2002 due to default by the Biotechnology Research Centre or other events uncontrollable by both parties, the Biotechnology Research Centre was obliged to refund to the Group the entire deposit before 30 June 2002 in cash or to transfer to the Group the exclusive right to use the BtA Technology. In the current year, the Group further paid approximately HK\$22,625,000 to the Biotechnology Research Centre in connection with the investment in BtA Technology.

Since April 2002, the Group commenced to negotiate with the Biotechnology Research Centre to amend the investment arrangement whereby the Group will undertake the development and production of BtA bio-pesticide on its own, instead of forming a joint venture with the Biotechnology Research Centre. Accordingly, the joint venture was not formed by 31 May 2002.

In August 2002, the Group entered into another agreement with the Biotechnology Research Centre whereby the Biotechnology Research Centre agreed to exclusively transfer the intellectual property rights relating to the BtA Technology for an aggregate consideration of approximately HK\$45,257,000. The consideration was settled by: (i) setting off the amount previously paid to the Biotechnology Research Centre of approximately HK\$39,600,000; and (ii) payment in cash for the balance of approximately HK\$5,657,000.

At the approval date of the accounts, the Biotechnology Research Centre was in the process of applying for certain patent registration in respect of the BtA Technology. In addition, the transfer of the intellectual property rights by the Biotechnology Research Centre to the Group has not been approved by the relevant Mainland China patent registries.

The Company's directors and the Group's management are of the opinion that the underlying value of the intellectual property rights relating to the BtA Technology is not less than the aggregate consideration for acquisition by reference to its open market value at 30 September 2002 as appraised by independent qualified valuers.

15 Investments in subsidiaries

	The Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted investments at cost	11,727	11,727
Amounts due from subsidiaries	64,652	64,652
	76,379	76,379

The above amounts due from subsidiaries are unsecured and interest free. The Company had agreed not to demand repayment from the subsidiaries until the subsidiaries are financially capable to do so. In addition, the Company had an amount due from a subsidiary of approximately HK\$24,166,000 as at 30 June 2002 (2001: HK\$23,499,000), which is unsecured, bears interest at the rate of approximately 6% per annum (2001: 6% per annum) and had no fixed repayment terms.

The following is a list of the subsidiaries as at 30 June 2002:

Company	Place of incorporation and operations	Principal activities	Particulars of issued/registered paid up capital	Interest held
Held directly:				
Yut Yat Company Limited	British Virgin Islands	Investment holding	US\$60,000	100%
Held indirectly:				
Fujian Chaoda Topmart Plant Growth Co., Ltd.*	Mainland China	Manufacturing and selling of plant growth regulatory products	RMB 15,800,000	100%
Fuzhou Topmart Plant Growth Co., Ltd.**	Mainland China	Manufacturing and selling of plant growth regulatory products	HK\$40,000,000	100%
Loyal Faith International Industrial Limited	Hong Kong	Investment holding	HK\$1,000,000	100%
Topmart Limited	Hong Kong	Investment holding	HK\$2	100%
Xiamen Genben Fine Chemical Industry Co., Ltd.**	Mainland China	Manufacturing and selling of plant growth regulatory products	RMB1,915,000	100%

15 Investments in subsidiaries (continued)

Company	Place of incorporation and operations	Principal activities	Particulars of issued/ registered paid up capital	Interest held
Held indirectly:				
平和超大浩倫錦溪生產資料有限公司 *** (Note 24(c))	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB1,000,000	90%
山西超大浩倫農業科技有限公司 ***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB3,000,000	95.5%
江西浩倫農業科技有限公司 ***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB3,000,000	95.5%
湖南浩倫農業科技有限公司 ***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB3,000,000	95.5%
大丰市浩倫農資超市有限責任公司 ***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB1,000,000	70%
建湖縣浩倫農資超市有限責任公司 ***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB1,000,000	70%
漳州市浩倫農業科技有限公司 ***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB1,000,000	70%
福建省邵武市浩倫農資有限公司 ***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB500,000	70%
吉安市浩倫農業科技有限公司 ***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB1,000,000	70%
太原市浩倫科力農業科技有限公司 ***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB1,000,000	66.85%
臨汾市超大浩倫農業科技有限公司 ***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB 500,000	66.85%
常德浩倫農業科技有限公司 ***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB500,000	66.85%
華容浩倫金穗農業科技有限公司 ***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB500,000	66.85%
婁底市浩倫農資有限公司 ***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB600,000	66.85%

* Sino-foreign owned equity joint venture

** Wholly foreign owned enterprises

*** Private limited liability companies

16 Inventories

	The Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	1,757	1,906
Work in progress	71	52
Finished goods	29,209	3,263
	31,037	5,221
Less: Provision for obsolete and slow-moving inventories	(421)	—
	30,616	5,221

At 30 June 2002, the carrying amount of inventories that are carried at net realisable value amounted to HK\$23,659,000 (2001: Nil).

17 Other receivables, deposits and prepayments

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Deposits for purchase of inventories	17,084	503	—	—
Due from minority shareholders of subsidiaries (i)	2,711	943	—	—
Interest receivable	—	1,597	—	836
Rental deposits	382	977	—	—
Prepayments for testing of the Group's agricultural products in five provinces of Mainland China	6,016	—	—	—
Other prepayments and receivables	3,560	951	72	69
	29,753	4,971	72	905

(i) The amounts due from minority shareholders of subsidiaries were unsecured, interest-free and was substantially settled subsequent to year end.

18 Trade receivables

The Group generally requires its customers to pay a deposit shortly before delivery of merchandise, with the balance of the sales amount payable within credit periods ranging from 30 to 60 days. The ageing analysis of trade receivables is as follows:

	The Group	
	2002 HK\$'000	2001 HK\$'000
0-30 days	22,697	13,551
31-60 days	15,903	4,863
61-90 days	6,521	—
91-180 days	1,510	—
	46,631	18,414
Less: Provision for doubtful debts	(2,493)	(948)
	44,138	17,466

19 Cash and bank balances

	The Group	
	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	44,599	98,251
Restricted bank deposits included in current assets	(9,054)	(1,593)
	35,545	96,658

Included in the Group's cash and bank balances are amounts totalling approximately HK\$9,054,000 (2001: HK\$1,593,000) pledged as security for repayment of the Group's bills payable.

At 30 June 2002, approximately HK\$40,389,000 (2001: HK\$19,561,000) of the Group's cash and bank balances were denominated in Renminbi and kept in Mainland China. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the government of the Mainland China.

20 Trade and bills payable

The ageing analysis of the trade and bills payables is as follows:

	The Group	
	2002 HK\$'000	2001 HK\$'000
0-30 days	14,708	5,228
31-60 days	9,739	366
61-90 days	9,893	—
91-180 days	11,929	56
	46,269	5,650

21 Accrued charges and sundry payables

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Accrued operating expenses	3,450	4,170	1,578	1,371
Accrued promotion and advertising expenses	8,768	6,022	—	—
Accrued finance costs	24	5,463	—	5,463
Accrued staff welfare and bonus fund (note 3)	854	677	—	—
Receipts in advance	2,841	—	—	—
Due to minority shareholders of subsidiaries (i)	3,869	—	—	—
Others	4,159	1,691	—	—
	23,965	18,023	1,578	6,834

- (i) As at 30 June 2002, approximately HK\$3,117,000 of the amounts due to minority shareholders of subsidiaries (2001: Nil) were unsecured, bore interest at the rate of approximately 8% per annum and had no fixed repayment terms. The remaining amounts due to minority shareholders of subsidiaries were unsecured, interest free and had no fixed repayment terms.

22 Consideration payable for acquisition of businesses and technical know-how

	The Group	
	2002 HK\$'000	2001 HK\$'000
Consideration payable for:		
Acquisition of businesses (note 11)	16,972	—
Acquisition of technical know-how (note 11)	2,451	—
	19,423	—
Current portion of consideration payable for acquisition of businesses	(6,129)	—
	13,294	—

23 Share capital

	Number of shares (in thousands)	HK\$'000
Authorised:		
At 1 July 2000, 30 June 2001 and 30 June 2002, ordinary shares of HK\$0.10 each	500,000	50,000
Issued and fully paid:		
At 1 July 2000 and 30 June 2001, ordinary shares of HK\$0.10 each	250,000	25,000
Exercise of warrants (i)	20,435	2,043
At 30 June 2002, ordinary shares of HK\$0.10 each	270,435	27,043

- (i) In November 2000, in connection with obtaining a loan of HK\$47,000,000 from a bank, the Company issued unlisted warrants to the bank conferring rights to subscribe for shares in the Company up to an amount of HK\$47,000,000 at a subscription price of HK\$1.38 per share (subject to adjustment). These warrants were transferable and exercisable during the period from 7 November 2000 to 7 November 2001 (both dates inclusive). On 31 October 2001, certain of these warrants were exercised to subscribe for 20,434,782 shares in the Company at a subscription price of HK\$1.38 per share, with the total proceeds amounting to approximately HK\$28,200,000. The remaining warrants lapsed on 7 November 2001.

24 Reserves

(a) Statutory reserves

Statutory reserves represent amounts set aside from the profit of Mainland China Subsidiaries in accordance with the local statutory requirements, which can be utilised to offset prior year losses, or be utilised for issuance of bonus shares on the condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such issuance.

(b) Capital reserve

Capital reserve represents:

- Capital reserve of the subsidiaries; and
- The difference between the aggregate nominal value of the share capital issued by the Company and the aggregate nominal amount of the share capital of subsidiaries through an exchange of shares.

(c) Adjustment to goodwill

In February 2001, the Group entered into a co-operation agreement with the minority shareholder of 平和超大浩倫錦溪生產資料有限公司 (“平和”), a 90% owned subsidiary, whereby the minority shareholder agreed to transfer all its business to 平和 (the “Business”) for a consideration of approximately HK\$13,203,000, resulting in goodwill on acquisition by the same amount was recognised, which was previously eliminated against reserves during the year ended 30 June 2001. In the current year, the consideration for the acquisition was adjusted as a result of a cash payment from the minority shareholders to the Group amounted to approximately HK\$1,980,000. Consequently, the goodwill previously recorded was adjusted by the same amount.

(d) Reserves of the Company

	Share premium (i) HK\$'000	Contributed surplus (ii) HK\$'000	Retained earnings (Accumulated losses) HK\$'000	Total HK\$'000
At 1 July 2000	53,424	11,527	2,881	67,832
Loss attributable to shareholders	—	—	(5,476)	(5,476)
At 30 June 2001	53,424	11,527	(2,595)	62,356
At 1 July 2001	53,424	11,527	(2,595)	62,356
Share premium on exercise of warrants (note 23)	26,157	—	—	26,157
Loss attributable to shareholders	—	—	(12,979)	(12,979)
At 30 June 2002	79,581	11,527	(15,574)	75,534

24 Reserves *(continued)***(d) Reserves of the Company** *(continued)*

- (i) Under the Companies Law of the Cayman Islands, share premium account is distributable to shareholders subject to the provisions of the Company's Memorandum and Articles of Association, and provided that immediately following the distribution or payment of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.
- (ii) Contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Yut Yat Company Limited and the value of net assets of the underlying subsidiaries acquired as at 11 November 1999 amounting to HK\$11,527,000. At Group level, the amount is reclassified into its components of reserves of the underlying subsidiaries.

25 Notes to the consolidated cash flow statement**(a) Reconciliation of operating profit to net cash inflow from operating activities**

	2002 HK\$'000	2001 HK\$'000
Operating profit	72,620	68,406
Interest income	(1,733)	(5,108)
Depreciation of fixed assets	8,865	6,587
Amortisation of intangible assets	3,788	1,298
Loss on disposal of fixed assets	—	2
Increase in inventories	(25,395)	(3,384)
Increase in other receivables, prepayments and deposits	(26,379)	(2,718)
Increase in trade receivables	(26,672)	(7,707)
Increase in trade and bills payable	40,619	1,015
Increase in accrued charges and sundry payables	11,381	3,861
Net cash inflow from operating activities	57,094	62,252

(b) Purchase of businesses

Analysis of the net cash outflow in respect of the acquisition of the agricultural resources businesses:

	2002 HK\$'000	2001 HK\$'000
Estimated fair value of the net assets of the agricultural resources trading businesses as at the dates of acquisition	—	—
Goodwill on acquisitions (<i>note 11</i>)	30,643	13,203
Cash consideration	30,643	13,203
Outstanding consideration payable	(16,972)	—
Net cash outflow in respect of acquisition of agricultural resources trading businesses	13,671	13,203

25 Notes to the consolidated cash flow statement (continued)

(c) Analysis of changes in financing during the year

	Share capital including premium		Minority interests		Bank loan, secured	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of the year	78,424	78,424	—	—	47,000	46,988
Exercise of warrants (note 23)	28,200	—	—	—	—	—
Capital contribution from minority shareholders	—	—	2,535	94	—	—
Minority interests' in share of loss	—	—	(264)	(94)	—	—
Repayment of bank loans, repayable						
– within three months	—	—	—	—	—	(14,000)
– more than three months	—	—	—	—	(47,000)	(32,988)
New bank loans repayable – more than three months	—	—	—	—	—	47,000
End of the year	106,624	78,424	2,271	—	—	47,000

26 Commitments

(a) Operating lease commitments:

At 30 June 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	939	2,988
In the second to fifth year inclusive	473	402
After the fifth year	137	98
	1,549	3,488

26 Commitments *(continued)***(b) Capital and other commitments:**

	The Group	
	2002 HK\$'000	2001 HK\$'000
Contracted but not provided for:		
Fixed assets	7,404	698
System development costs	660	10,368
Research and development costs	13,096	6,060
Promotion and advertising expenses	7,543	3,870
Authorised but not contracted for:		
System development costs	—	13,203
	28,703	34,199

27 Subsequent events

The following significant transactions took place subsequent to 30 June 2002 and up to the approval date of these accounts:

- (i) In August 2002, the Group entered into an agreement with the Biotechnology Research Centre whereby the Biotechnology Research Centre agreed to exclusively transfer the intellectual property rights relating to the BtA Technology for an aggregate consideration of approximately HK\$45,257,000. The consideration was settled by:
 - (i) setting off the amount previously paid to the Biotechnology Research Centre of approximately HK\$39,600,000; and
 - (ii) payment in cash for the balance of approximately HK\$5,657,000.
- (ii) On 28 October 2002, the directors of the Company recommended a bonus issue of new shares of \$0.10 each in the share capital of the Company (the "Bonus Shares"), by capitalisation of share premium account, to shareholders whose names appear on the Company's register of members on 17 December 2002 (the "Proposed Bonus Share Issue"). The Proposed Bonus Share Issue will be made on the basis of three Bonus Shares for every ten existing shares held on 17 December 2002. The Bonus Shares will be credited as fully paid at par and will rank pari passu with the existing shares in all respects when issued.

28 Approval of accounts

The accounts were approved by the board of directors on 28 October 2002.