



1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by China Agrotech Holdings Limited (the “Company”) and its subsidiaries (collectively referred to herein as 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 2002:

SSAP 11 (revised):	Foreign currency translation
SSAP 34 (revised):	Employee benefits

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

(b) Group accounting

(i) Consolidation

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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.

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.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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.



1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Group accounting *(continued)*

(i) Consolidation *(continued)*

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 account 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) System development costs

Expenditure on development of computer system for the Group's own use is capitalised and amortised using the straight-line method over the useful life of 5 years, from the date when the computer system is available for use.

(ii) 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.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Intangible assets *(continued)*

(ii) Goodwill *(continued)*

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

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 eliminated against reserves to the extent it has not previously been realised in the profit and loss account.

(iii) 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 products are recognised as intangible asset 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 or use the asset 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.

(iv) 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.

(v) 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 carried at cost which comprises all direct and indirect costs of construction less any accumulated impairment losses. On completion, construction-in-progress is transferred to fixed assets at cost less accumulated impairment losses.



1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Fixed assets *(continued)*

(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%
Furniture and office equipment	20%
Motor vehicles	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.

(iii) Impairment and gain or loss on disposal

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 loss is recognised in the profit and loss accounts.

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.

(e) 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.



1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) *Bonus plan*

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plan are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.



1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Employee benefits *(continued)*

(iii) Pension obligations

The Group operates a number of defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies.

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

(k) 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.

(l) Contingent liabilities and contingent assets

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, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) 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 and plant protection technical services income are recognised when the services are rendered.



1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) Revenue recognition *(continued)*

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 or provision of services are recorded as receipts in advance.

(n) 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.

(o) Advertising and promotion costs

Costs of advertising and promotion are expensed as incurred.

(p) 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, deposits and prepayments and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditure comprises additions to system development costs (note 11), other intangible assets (note 12) and fixed assets (note 13), and prepayments for purchase of consultancy database and purchase of business (note 14).



2. TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in (i) the manufacturing and selling of plant growth regulatory products, chemical pesticides and bio-pesticides; (ii) the trading of pesticides, fertilisers and other agricultural products; and (iii) the provision of plant protection technical services in Mainland China. Revenues recognised during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sales of plant growth regulatory products, chemical pesticides and bio-pesticides	155,703	190,467
Trading of pesticides, fertilisers and other agricultural products	507,905	158,824
Provision of plant protection technical services	484	–
	664,092	349,291
Other revenues		
Commission income	296	279
Interest income from bank deposits	816	1,733
	1,112	2,012
Total revenues	665,204	351,303

(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, chemical pesticides and bio-pesticides
- Trading operation – Trading of pesticides, fertilisers and other agricultural products

Other operations of the Group mainly comprise businesses of investment holding and provision of plant protection technical services, neither of which are of a sufficient size to be reported separately.



2. TURNOVER, REVENUES AND SEGMENT INFORMATION *(continued)*

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

(i) As at and for the year ended 30 June 2003

	Manufacturing operation HK\$'000	Trading operation HK\$'000	Other operations HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover					
External sales	155,703	507,905	484		664,092
Inter-segment sales	4,855	–	–	(4,855)	–
	<u>160,558</u>	<u>507,905</u>	<u>484</u>		<u>664,092</u>
Segment results	<u>51,944</u>	<u>(15,377)</u>	<u>(7,820)</u>		28,747
Interest income					816
Finance costs					(1,478)
Taxation					(1,562)
Minority interests					<u>626</u>
Profit attributable to shareholders					<u>27,149</u>
Segment assets	<u>204,073</u>	<u>237,903</u>	<u>22,951</u>		<u>464,927</u>
Segment liabilities	<u>(78,808)</u>	<u>(101,648)</u>	<u>(9,123)</u>		(189,579)
Unallocated liabilities					<u>(5,807)</u>
Total liabilities					<u>(195,386)</u>
Capital expenditure	<u>40,524</u>	<u>10,853</u>	<u>13,207</u>		<u>64,584</u>
Depreciation and amortisation charge	<u>14,559</u>	<u>13,118</u>	<u>332</u>		<u>28,009</u>
Impairment losses	<u>3,582</u>	–	–		<u>3,582</u>
Other major non-cash expenses	<u>–</u>	<u>3,635</u>	<u>433</u>		<u>4,068</u>



2. TURNOVER, REVENUES AND SEGMENT INFORMATION *(continued)*

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

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

	Manufacturing operation <i>HK\$'000</i>	Trading operation <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover					
External sales	190,467	158,824	–		349,291
Inter-segment sales	4,337	–	–	(4,337)	–
	<u>194,804</u>	<u>158,824</u>	<u>–</u>		<u>349,291</u>
Segment results	<u>87,661</u>	<u>(8,643)</u>	<u>(8,131)</u>		70,887
Listing expenses					(6,500)
Interest income					1,733
Finance costs					(3,724)
Taxation					(400)
Minority interests					<u>264</u>
Profit attributable to shareholders					<u>62,260</u>
Segment assets	<u>172,301</u>	<u>158,045</u>	<u>4,889</u>		<u>335,235</u>
Segment liabilities	<u>(38,517)</u>	<u>(49,550)</u>	<u>(1,590)</u>		(89,657)
Unallocated liabilities					<u>(4,258)</u>
Total liabilities					<u>(93,915)</u>
Capital expenditure	<u>53,409</u>	<u>50,121</u>	<u>–</u>		<u>103,530</u>
Depreciation and amortisation charge	<u>10,577</u>	<u>1,845</u>	<u>231</u>		<u>12,653</u>
Other major non-cash expenses	<u>516</u>	<u>1,930</u>	<u>–</u>		<u>2,446</u>

(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 crediting and charging the following:

	2003 HK\$'000	2002 HK\$'000
Crediting		
Net exchange gain	<u>74</u>	<u>–</u>
Charging		
Research and development expenses	7,727	7,733
Amortisation of intangible assets		
– System development costs	5,781	–
– Goodwill	7,329	1,604
– Product development costs	2,234	2,184
– Technical know-how	3,016	–
Provision for impairment loss of other intangible assets	3,582	–
Advertising and promotion expenses	14,050	15,110
Auditors' remuneration	1,050	830
Depreciation of fixed assets	9,649	8,865
Operating leases		
– Land and buildings	2,322	3,755
– Motor vehicles	217	217
Write-down of inventories	–	482
Provision for obsolete and slow-moving inventories	1,375	421
Provision for doubtful debts	2,595	1,545
Net exchange loss	–	189
Staff costs, including directors' emoluments (Note 8)	<u>10,376</u>	<u>8,663</u>



4. FINANCE COSTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Arrangement fee for a bank loan	–	2,500
Interest expense on:		
– Bank loans	–	1,147
– Bills payable	1,178	–
– Amounts due to minority shareholders of subsidiaries	300	77
	1,478	3,724

5. TAXATION

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Mainland China Enterprise Income Tax		
– Current year provision	1,656	400
– Over-provision in prior year	(94)	–
	1,562	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 Enterprise Income Tax rates ranging from 18% to 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%.

From 1998, the Group established certain productive foreign investment enterprises which were/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. No provision for Mainland China Enterprise Income Tax was made in respect of the operations of these productive foreign investment enterprises during the year ended 30 June 2003 (2002: Nil) since these enterprises were either at tax loss position or enjoying the full tax exemption treatment during the year.

Other subsidiaries in Mainland China, being domestic enterprises of Mainland China engaging in the trading of agricultural resource products (“trading subsidiaries”), are eligible to apply for reduction or exemption from Mainland China Enterprise Income Tax, subject to the approval of local tax bureaux. Certain of these trading subsidiaries had obtained approvals for granting exemption in Mainland China Enterprise Income Tax for their operations during the year ended 30 June 2003. Other trading subsidiaries which did not obtain the approvals were subject to Mainland China Enterprise Income Tax at rates ranging from 18% to 33%.



5. TAXATION (continued)

Majority of the Group's sales of plant growth regulatory products and bio-pesticides were carried out by Fujian Agrotech Holding Co., Ltd. and Fujian Agrotech Bio-Engineering Co., Ltd., which are exempted from Mainland China value-added tax ("VAT") according to written approvals from the relevant Mainland China tax bureau. The Group's sales of pesticides, fertilisers and other agricultural products are subject to VAT at a range of 0% to 17% according to Mainland China tax regulations.

No provision for Hong Kong profits tax has been made as there are no assessable profit (2002: Nil) for the subsidiaries operating in Hong Kong during the year.

There was no material unprovided deferred taxation as at 30 June 2003.

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a loss of approximately HK\$2,881,000 (2002: loss of approximately HK\$12,979,000) dealt with in the accounts of the Company.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$27,149,000 (2002: HK\$62,260,000) and on the weighted average number of 351,565,000 (2002: 342,614,000) shares in issue during the year.

The comparative weighted average number of shares in issue and basic earnings per share for the year ended 30 June 2002 have been adjusted to reflect the bonus issue of shares on the basis of three bonus shares for every ten shares held by shareholders on 20 December 2002 (Note 24).

No diluted earnings per share is presented as there were no potential dilutive ordinary shares in issue during the year ended 30 June 2003 and the unlisted warrants outstanding during the year ended 30 June 2002 had anti-dilutive effect.

8. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2003 HK\$'000	2002 HK\$'000
Salaries and welfare	9,272	8,294
Pensions (Note 9)	1,104	369
	10,376	8,663



9. RETIREMENT BENEFIT COSTS

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 makes monthly contributions calculating based on 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 in Mainland China. 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\$1,104,000 (2002: HK\$369,000).

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:

	2003 HK\$'000	2002 HK\$'000
Executive directors:		
Fees	–	–
Basic salaries and allowances	770	1,505
Contribution to retirement schemes	12	24
Independent non-executive directors:		
Fees	120	120
Discretionary bonus	40	40
	942	1,689

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 (2002: Nil).



10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2002: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: two) individuals during the year are as follows:

	2003 HK\$'000	2002 <i>HK\$'000</i>
Basic salaries and allowances	1,204	1,120
Contribution to retirement schemes	35	21
	<hr/> 1,239 <hr/>	<hr/> 1,141 <hr/>

The emoluments of each of these three (2002: two) individuals are less than HK\$1,000,000.



11. SYSTEM DEVELOPMENT COSTS

	Total <i>HK\$'000</i>
Cost:	
At 1 July 2002	42,712
System development costs recognised as assets	660
Exchange adjustment	(24)
	<hr/>
At 30 June 2003	43,348
	<hr style="border-top: 1px dashed black;"/>
Accumulated amortisation:	
At 1 July 2002	–
Charge for the year	5,781
Exchange adjustment	(1)
	<hr/>
At 30 June 2003	5,780
	<hr style="border-top: 1px dashed black;"/>
Net book value:	
At 30 June 2003	37,568
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At 30 June 2002	42,712
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During the year, the development and installation of the computer system was completed and the system has been put in use.



12. OTHER INTANGIBLE ASSETS

	The Group			Total HK\$'000
	Goodwill HK\$'000	Product development costs HK\$'000	Technical know-how (b) HK\$'000	
Cost:				
At 1 July 2002	30,643	15,390	7,166	53,199
Transferred from investment deposit	–	–	39,600	39,600
Goodwill on acquisition (a)	15,081	–	–	15,081
Development costs recognised as assets	–	7,258	–	7,258
Acquisition of BtA technology	–	–	5,657	5,657
Acquisition of technical know-how of fertilisers	–	–	7,539	7,539
Exchange adjustment	(21)	(11)	(30)	(62)
At 30 June 2003	<u>45,703</u>	<u>22,637</u>	<u>59,932</u>	<u>128,272</u>
Accumulated amortisation and impairment losses:				
At 1 July 2002	1,604	4,846	–	6,450
Charge for the year	7,329	2,234	3,016	12,579
Provision for impairment losses	–	–	3,582	3,582
Exchange adjustment	(3)	(4)	(2)	(9)
At 30 June 2003	<u>8,930</u>	<u>7,076</u>	<u>6,596</u>	<u>22,602</u>
Net book value:				
At 30 June 2003	<u>36,773</u>	<u>15,561</u>	<u>53,336</u>	<u>105,670</u>
At 30 June 2002	<u>29,039</u>	<u>10,544</u>	<u>7,166</u>	<u>46,749</u>

12. OTHER INTANGIBLE ASSETS (continued)

(a) Goodwill

During the year, the Group entered into arrangements with two separate agricultural resources trading enterprises whereby the agricultural resources trading enterprises agreed to form joint ventures with the Group in carrying out trading of pesticides, fertilisers and other agricultural products, and provision of plant protection technical services. In connection with these arrangements, the agricultural resources trading enterprises transferred their businesses, which primarily consisted of customer base and management expertise, into the joint ventures for an aggregate consideration of HK\$15,081,000 payable by the Group, of which approximately HK\$1,885,000 remained unpaid as at 30 June 2003. The aggregate consideration was recorded as goodwill.

(b) Technical know-how

- (i) In August 2002, the Group entered into an agreement with an agricultural bio-technology research centre whereby the bio-technology 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. Up to June 2002, the Group paid an amount of approximately HK\$39,600,000 which was recorded as an investment deposit as at 30 June 2002.

During the year, the Group settled the balancing payment of approximately HK\$5,657,000. Accordingly, the total cost for the acquisition of the BtA technology was recorded as technical know-how. The transfer of the intellectual property rights is yet to be completed as at 30 June 2003.

- (ii) During the year, the Group acquired the technical know-how relating to the production of three fertilisers from an agricultural research centre in Mainland China for an aggregate consideration of approximately HK\$7,539,000.

The Company's directors and the Group's management reviewed and evaluated the carrying value of the intangible assets at 30 June 2003 and they are of the opinion that the underlying value of the intangible assets is not less than the carrying value at 30 June 2003.



13. FIXED ASSETS

	Land and buildings (i)	Machinery	The Group Furniture and office equipment	Motor vehicles	Construction- in-progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:						
At 1 July 2002	20,695	37,856	372	1,999	1,885	62,807
Additions	–	1,118	357	424	18,952	20,851
Transfers	3,132	17,705	–	–	(20,837)	–
Disposals	–	(38)	(5)	(13)	–	(56)
Exchange adjustment	(13)	(27)	–	(1)	–	(41)
	<u>23,814</u>	<u>56,614</u>	<u>724</u>	<u>2,409</u>	<u>–</u>	<u>83,561</u>
At 30 June 2003	23,814	56,614	724	2,409	–	83,561
Accumulated depreciation:						
At 1 July 2002	1,479	14,695	146	733	–	17,053
Charge for the year	926	8,204	103	416	–	9,649
Disposals	–	(33)	–	(1)	–	(34)
Exchange adjustment	(1)	(11)	–	–	–	(12)
	<u>2,404</u>	<u>22,855</u>	<u>249</u>	<u>1,148</u>	<u>–</u>	<u>26,656</u>
At 30 June 2003	2,404	22,855	249	1,148	–	26,656
Net book value:						
At 30 June 2003	<u>21,410</u>	<u>33,759</u>	<u>475</u>	<u>1,261</u>	<u>–</u>	<u>56,905</u>
At 30 June 2002	<u>19,216</u>	<u>23,161</u>	<u>226</u>	<u>1,266</u>	<u>1,885</u>	<u>45,754</u>

- (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.



14. PREPAYMENTS AND DEPOSITS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Deposit for lease of production lines (a)	10,366	–
Prepayment for consultancy database	3,769	–
Prepayment for purchase of business	3,769	–
Prepayment for purchase of machinery	–	11,314
Investment deposit (Note 12(b)(i))	–	39,600
	17,904	50,914

- (a) During the year, the Group entered into two contracts with two independent agricultural resources manufacturers in Mainland China for rental of production facilities and factory premises, and for granting the trademark, production licences and distribution network to the Group to produce and distribute certain products developed by the agricultural resources manufacturers for a period of two years. Approximately HK\$10,366,000 was paid by the Group as deposits at 30 June 2003.



15. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted investments at cost	11,727	11,727
Amounts due from subsidiaries	90,123	88,818
	101,850	100,545

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.

The following is a list of the subsidiaries as at 30 June 2003:

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 Agrotech Holding Co., Ltd. (formerly known as Fujian Chaoda Topmart Plant Growth Co., Ltd.)*	Mainland China	Investment holding and manufacturing and selling of plant growth regulatory products	RMB30,320,000	100%
Fuzhou Agrotech Crop Science Co., Ltd. (formerly known as Fuzhou Topmart Plant Growth Co., Ltd.)*	Mainland China	Selling of plant growth regulatory products and provision of plant protection technical services	HK\$40,000,000	100%
Fujian Agrotech Bio-Engineering Co., Ltd.*	Mainland China	Manufacturing and selling of plant growth regulatory products and bio-pesticides	US\$750,000	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:				
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	Selling of plant growth regulatory products	RMB1,915,000	100%
福建南平市浩倫作物科學有限公司***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB10,000,000	90%
平和縣超大浩倫錦溪生產資料有限公司***	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	Manufacturing and selling of chemical pesticides and trading of pesticides, fertilisers and other agricultural products	RMB3,000,000	95.5%
江蘇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%
海南浩倫農業科技有限公司***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB2,000,000	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%



15. INVESTMENTS IN SUBSIDIARIES (continued)

Company	Place of incorporation and operations	Principal activities	Particulars of issued/registered paid up capital	Interest held
Held indirectly:				
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%
福建省三明市浩倫園藝 植保有限公司***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB3,000,000	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	RMB500,000	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%
娄底市浩倫農資有限 公司***	Mainland China	Trading of pesticides, fertilisers and other agricultural products	RMB600,000	90.73%

* Sino-foreign owned equity joint venture

** Wholly foreign owned enterprises

*** Limited liability companies



16. INVENTORIES

	The Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	2,455	1,757
Work in progress	2,038	71
Finished goods	54,108	29,209
	58,601	31,037
Less: Provision for obsolete and slow-moving inventories	(1,796)	(421)
	56,805	30,616

At 30 June 2003, the carrying amount of inventories that are carried at net realisable value amounted to HK\$47,973,000 (2002: HK\$23,659,000).

17. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Deposits for purchase of inventories	38,683	17,084	–	–
Due from minority shareholders of subsidiaries (a)	1,147	2,711	–	–
Prepayments for testing of the Group's agricultural products in Mainland China	942	6,016	–	–
Prepayments for promotion of the Group's agricultural products	1,178	–	–	–
Others	4,278	3,942	72	72
	46,228	29,753	72	72

(a) The amounts due from minority shareholders of subsidiaries were unsecured, interest-free and had no fixed repayment terms.



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 90 days. The ageing analysis of trade receivables is as follows:

	The Group	
	2003 HK\$'000	2002 HK\$'000
0-30 days	48,937	22,697
31-60 days	20,737	15,903
61-90 days	8,349	6,521
91-180 days	12,583	1,510
Over 180 days	2,393	–
	92,999	46,631
Less: Provision for doubtful debts	(5,088)	(2,493)
	87,911	44,138

19. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSITS

	The Group	
	2003 HK\$'000	2002 HK\$'000
Restricted bank deposits	27,850	9,054
Cash and bank balances	28,086	35,545
	55,936	44,599

Restricted bank deposits are pledged as security for the Group's bills payable.

At 30 June 2003, approximately HK\$55,777,000 (2002: HK\$40,389,000) of the Group's cash and bank balances and restricted bank deposits 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	
	2003 HK\$'000	2002 HK\$'000
0-30 days	43,498	14,708
31-60 days	22,220	9,739
61-90 days	11,449	9,893
91-180 days	57,671	11,929
	134,838	46,269

21. ACCRUED CHARGES AND SUNDRY PAYABLES

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Accrued operating expenses	5,530	2,261	2,226	1,578
Accrued promotion and advertising expenses	3,273	8,768	–	–
Accrued finance costs	–	24	–	–
Accrued pension costs (Note 9)	3,325	2,043	–	–
Receipts in advance	11,496	2,841	–	–
Due to minority shareholders of subsidiaries (a)	12,738	3,869	–	–
Others	9,069	4,159	–	–
	45,431	23,965	2,226	1,578

- (a) As at 30 June 2003, approximately HK\$12,037,000 of the amounts due to minority shareholders of subsidiaries (2002: HK\$3,117,000) were unsecured, interest bearing at rates ranging from approximately 5% to 8% per annum (2002: 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	
	2003 HK\$'000	2002 HK\$'000
Consideration payable for:		
Acquisition of businesses	8,010	16,972
Acquisition of technical know-how	–	2,451
	8,010	19,423
Non-current portion of consideration payable for acquisition of businesses	–	(6,129)
	8,010	13,294

23. DUE TO A DIRECTOR

The amount due to a director is unsecured, non interest-bearing and has no fixed repayment terms (2002: Nil).

24. SHARE CAPITAL

	Number of shares <i>(in thousands)</i>	HK\$'000
Authorised:		
At 1 July 2001, 30 June 2002 and 30 June 2003, ordinary shares of HK\$0.10 each	500,000	50,000
Issued and fully paid:		
At 1 July 2001, ordinary shares of HK\$0.10 each	250,000	25,000
Exercise of warrants	20,435	2,043
At 30 June 2002, ordinary shares of HK\$0.10 each	270,435	27,043
Bonus issue (a)	81,130	8,113
At 30 June 2003, ordinary shares of HK\$0.10 each	351,565	35,156

- (a) On 28 October 2002, the directors of the Company recommended a bonus issue of new shares of HK\$0.10 each in the share capital of the Company by capitalisation of the share premium account. The bonus issue was made on the basis of three bonus shares for every ten existing shares on 20 December 2002. The bonus shares were credited as fully paid at par and ranked pari passu with the existing shares in all respects when issued.



25. RESERVES

	Share premium (a) <i>HK\$'000</i>	Statutory reserves (b) <i>HK\$'000</i>	Capital reserve (c) <i>HK\$'000</i>	Contributed surplus (d) <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group							
At 1 July 2001	53,424	8,006	1,188	–	477	58,544	121,639
Exercise of warrants	26,157	–	–	–	–	–	26,157
Exchange adjustment on translation of the accounts of subsidiaries	–	–	–	–	(30)	–	(30)
Profit attributable to shareholders	–	–	–	–	–	62,260	62,260
Adjustment to goodwill	–	–	–	–	–	1,980	1,980
At 30 June 2002	<u>79,581</u>	<u>8,006</u>	<u>1,188</u>	<u>–</u>	<u>447</u>	<u>122,784</u>	<u>212,006</u>
At 1 July 2002	79,581	8,006	1,188	–	447	122,784	212,006
Bonus issue (Note 24)	(8,113)	–	–	–	–	–	(8,113)
Exchange adjustment on translation of the accounts of subsidiaries	–	–	–	–	(165)	–	(165)
Profit attributable to shareholders	–	–	–	–	–	27,149	27,149
At 30 June 2003	<u>71,468</u>	<u>8,006</u>	<u>1,188</u>	<u>–</u>	<u>282</u>	<u>149,933</u>	<u>230,877</u>
Company							
At 1 July 2001	53,424	–	–	11,527	–	(2,595)	62,356
Exercise of warrants	26,157	–	–	–	–	–	26,157
Loss for the year	–	–	–	–	–	(12,979)	(12,979)
At 30 June 2002	<u>79,581</u>	<u>–</u>	<u>–</u>	<u>11,527</u>	<u>–</u>	<u>(15,574)</u>	<u>75,534</u>
At 1 July 2002	79,581	–	–	11,527	–	(15,574)	75,534
Bonus issue (Note 24)	(8,113)	–	–	–	–	–	(8,113)
Loss for the year	–	–	–	–	–	(2,881)	(2,881)
At 30 June 2003	<u>71,468</u>	<u>–</u>	<u>–</u>	<u>11,527</u>	<u>–</u>	<u>(18,455)</u>	<u>64,540</u>



25. RESERVES (continued)

- (a) 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.
- (b) 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.
- (c) Capital reserve represents (i) capital reserve of the subsidiaries; and (ii) 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.
- (d) 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 in 1999. At Group level, the amount is reclassified into its components of reserves of the underlying subsidiaries.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow from operations

	2003 HK\$'000	2002 HK\$'000
Operating profit	29,563	72,620
Interest income	(816)	(1,733)
Depreciation of fixed assets	9,649	8,865
Loss on disposal of fixed assets	9	–
Amortisation of system development costs	5,781	–
Amortisation of other intangible assets	12,579	3,788
Provision for impairment loss of other intangible assets	3,582	–
Increase in deposits for lease of production lines	(10,366)	–
Increase in inventories	(26,189)	(25,395)
Increase in other receivables, prepayments and deposits	(16,475)	(26,379)
Increase in trade receivables	(43,773)	(26,672)
Increase in trade and bills payable	88,569	40,619
Increase in accrued charges and sundry payables	12,597	7,512
	<hr/>	<hr/>
Net cash inflow from operations	64,710	53,225



26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Purchase of businesses

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

	2003 HK\$'000	2002 HK\$'000
Estimated fair value of the net assets of the agricultural resources trading businesses as at the dates of acquisition	–	–
Goodwill on acquisitions (Note 12)	15,081	30,643
Prepayment for purchase of business	3,769	–
Consideration payable brought forward	16,972	–
	<hr/>	<hr/>
Cash consideration	35,822	30,643
Outstanding consideration payable	(8,010)	(16,972)
	<hr/>	<hr/>
Net cash outflow in respect of acquisition of agricultural resources trading businesses	27,812	13,671

(c) Analysis of changes in financing during the year

	Share capital including premium		Due to minority shareholders of subsidiaries		Minority interests		Due to a director		Bank loan, secured		Restricted bank deposits	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Beginning of the year	106,624	78,424	3,869	–	2,271	–	–	–	–	47,000	9,054	1,593
Exercise of warrants	–	28,200	–	–	–	–	–	–	–	–	–	–
Advances from minority shareholders of subsidiaries	–	–	8,869	3,869	–	–	–	–	–	–	–	–
Capital contribution from minority shareholders	–	–	–	–	2,004	2,535	–	–	–	–	–	–
Acquisition of additional interest in a subsidiary by the Group	–	–	–	–	(141)	–	–	–	–	–	–	–
Minority interests' in share of loss	–	–	–	–	(626)	(264)	–	–	–	–	–	–
Advances from a director	–	–	–	–	–	–	1,300	–	–	–	–	–
Repayment of bank loans	–	–	–	–	–	–	–	–	–	(47,000)	–	–
Increase in restricted bank deposits	–	–	–	–	–	–	–	–	–	–	18,796	7,461
	106,624	106,624	12,738	3,869	3,508	2,271	1,300	–	–	–	27,850	9,054
End of the year	106,624	106,624	12,738	3,869	3,508	2,271	1,300	–	–	–	27,850	9,054



27. COMMITMENTS

(a) Operating lease commitments:

At 30 June 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	3,011	939
In the second to fifth year inclusive	2,544	473
After the fifth year	122	137
	<u>5,677</u>	<u>1,549</u>

(b) Capital and other commitments:

	The Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Contracted but not provided for:		
– Fixed assets	–	7,404
– System development costs	–	660
– Research and development costs	5,692	13,096
– Promotion and advertising expenses	4,342	7,543
– Consultancy database	3,769	–
	<u>13,803</u>	<u>28,703</u>

28. SUBSEQUENT EVENTS

In August 2003, the Group entered into an agreement with two independent fertiliser manufacturers for the acquisition of production facilities, factory premises and land use rights of the manufacturers, and for obtaining the right to use the trademark of the manufacturers for five years. The aggregate consideration of the acquisition was approximately HK\$14,858,000, of which approximately HK\$12,031,000 would be settled by cash and the remaining amount would be settled by assuming the bank borrowings of HK\$2,827,000 of the manufacturers.

29. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation.

30. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 27 October 2003.