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**超大現代農業(控股)有限公司**  
**CHAODA MODERN AGRICULTURE**  
**(HOLDINGS) LIMITED**

Room 2705, 27th Floor China Resources Building  
26 Harbour Road, Wanchai, Hong Kong  
Tel : (852) 28450168 Fax : (852) 28270278

Deputy Director, Accounting  
Hong Kong Society of Accountants  
4<sup>th</sup> floor Tower Two, Lippo Centre  
89 Queensway  
Hong Kong

10 July 2002

Dear Sirs,

**Exposure Draft (“ED”) of a Proposed Statement of Standard Accounting Practice (“SSAP”), Agriculture**

We are engaged in agricultural operations and are writing to comment on the ED of a proposed SSAP on Agriculture, which was issued by the Financial Accounting Standards Committee of Hong Kong Society of Accountants (“HKSA”). The terms used in this letter are consistent with those used by the ED.

**1. Cost of an biological asset**

Under paragraph 30 of the ED, if market-determined prices or values are not available, biological asset should be measured at its cost less any accumulated depreciation and any accumulated impairment losses. However, the ED did not specify what is the cost if the biological asset is reproduced from another biological asset.

For example, an agricultural company could be engaged in the development of a specie of goat and the market-determined prices are not available. The existing goats could reproduce an infant goat, which is then bred and developed into an adult one. Under this circumstance, should the cost for this reproduced biological asset be the cost of the breeding and developing of the infant goat to an adult one? We suggest this should be clearly specified in the new SSAP and examples should be given in order to avoid any doubts.

**2. Value of agricultural produce**

Under paragraph 32 of the ED, an enterprise in all cases measures agricultural produce at the point of harvest at its fair value less estimated point-of-sale costs. The new SSAP assumes that the fair value of agricultural produce at the point of harvest can always be measured reliably. It does not allow agricultural produce to be stated at cost.



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However, this may not be the appropriate. Market-determined prices or values are sometimes not available for certain agricultural produce that is not frequently traded in the market. The proposed SSAP should consider allowing agricultural produce be stated cost (costs of production) under certain circumstances. Take the example under point 1, the agricultural company sells a specie of goat in the PRC, which is imported from overseas. Such specie is a unique one and is seldom traded in the PRC market. It would be fairer to state this produce at its cost, e.g. its breeding cost, than mark it to a fair value, which could be highly subjective.

### **3. Transition arrangement**

Under paragraph 59 of the ED, the proposed SSAP does not establish any specific transitional provisions. The adoption of the proposed SSAP should be in accordance with SSAP 2. Under paragraphs 45 and 48 of SSAP 2, a change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. The change in accounting policy should be applied prospectively when the amount of the adjustment to the opening balance of retained earnings or reserves cannot be reasonable determined.

For the proposed new SSAP, it would be very difficult to establish the fair values of the biological assets and the agricultural produce at the balance sheet dates of the respective prior years (especially when discounted cashflow model has to be applied to estimate the fair values). It could be time consuming and incurring lots of costs to do so. We suggest the new SSAP to specify that the adjustments could be made prospectively in the first year of adoption of the new SSAP.

We wish HKSA to consider the above comments in finalising the proposed SSAP. Should you have any questions, please do not hesitate to contact us.

Yours truly,

For and on behalf of  
Chaoda Modern Agriculture (Holdings) Limited

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Chiu Na Lai  
Executive Director