

REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

There were no changes in the nature of the Group's principal activities during the year. The principal activities of the Company are investment holding and the provision of management services. The principal activities of the subsidiaries, associates and jointly controlled entities are set out in notes 14, 15 and 16 to the financial statements, respectively.

SEGMENTED INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and the Group's turnover by geographical location for each of the two years ended 31 December 2000 is as follows:

	2000		1999	
	Turnover HK\$'000	Contribution to profit from operating activities HK\$'000	Turnover HK\$'000	Contribution to profit from operating activities HK\$'000
By activity:				
Trading of chemical fertilisers	2,316,872	33,833	3,168,320	41,663
Trading of agricultural products	759,625	7,579	945,868	2,450
Property investment	3,348	3,348	3,299	3,299
	<u>3,079,845</u>	<u>44,760</u>	<u>4,117,487</u>	<u>47,412</u>
			2000	1999
By geographical location:			Turnover HK\$'000	Turnover HK\$'000
The People's Republic of China:				
Hong Kong			8,916	74,103
Elsewhere			3,024,552	3,884,180
Others			<u>46,377</u>	<u>159,204</u>
			<u>3,079,845</u>	<u>4,117,487</u>

The contribution to profit from operating activities by geographical location is substantially in line with the overall rate of contribution to turnover and, accordingly, an analysis of profit by geographical location is not presented.

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RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 22 to 58.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial period/years extracted from the published audited financial statements and reclassified/restated as appropriate, is set out below.

	Year ended 31 December 2000 HK\$'000	Year ended 31 December 1999 HK\$'000	Year ended 31 December 1998 HK\$'000	Period from 1 April 1997 to 31 December 1997 HK\$'000	Year ended 31 March 1997 HK\$'000
RESULTS					
TURNOVER	<u>3,079,845</u>	<u>4,117,487</u>	<u>2,339,027</u>	<u>2,176,191</u>	<u>3,952,427</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>8,017</u>	<u>9,883</u>	<u>8,481</u>	<u>(23,478)</u>	<u>758</u>
	As at 31 December				As at 31
	2000	1999	1998	1997	March 1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	<u>464,875</u>	<u>636,300</u>	<u>854,897</u>	<u>1,025,032</u>	<u>1,217,988</u>
TOTAL LIABILITIES	<u>(204,290)</u>	<u>(384,770)</u>	<u>(620,248)</u>	<u>(786,680)</u>	<u>(932,056)</u>
NET ASSETS	<u>260,585</u>	<u>251,530</u>	<u>234,649</u>	<u>238,352</u>	<u>285,932</u>

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FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets of the Company and the Group and the investment properties of the Group are set out in notes 12 and 13 to the financial statements, respectively.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 14 to the financial statements.

ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Group's interests in its associates and jointly controlled entities are set out in notes 15 and 16 to the financial statements, respectively.

BANK BORROWINGS

Details of the Group's bank borrowings are set out in note 22 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 24 to the financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in note 25 to the financial statements.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Cheung Siu Lam (*Chairman*)

Chan Yuk Ming (*Vice-chairman*)

Lim Kuo Chiang (*Managing director*)

Yu Hei Wung, Raymond (Appointed on 3 May 2000)

Lo Wan

Zhang Wei

Cheung Siu Yan

Cheung Choi Chuen (Resigned on 16 April 2000)

Independent non-executive directors:

Wang Xiao Min

Wang Jian Sheng

Chan Chun Keung (Appointed on 13 November 2000)

Choy Ming Yuk (Appointed on 3 May 2000)

Yu Hei Wung, Raymond (Resigned on 3 May 2000)

In accordance with articles 96 and 105 of the Company's articles of association, Chan Yuk Ming, Zhang Wei, Cheung Siu Yan and Chan Chun Keung will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The directors of the Company, including the independent non-executive directors but excluding the Chairman and the Managing Director, are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provisions of the Company's articles of association.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31 December 2000, the interests of the Company's directors and their associates in the share capital of the Company and its subsidiaries, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as follows:

(A) The Company

Name of director	Number of shares held and nature of interest		
	Personal interests	Corporate interests	Total
Cheung Siu Lam	171,210,000	57,600,000 (<i>Note</i>)	228,810,000
Lo Wan	—	57,600,000 (<i>Note</i>)	57,600,000

Note: Arbalice Holdings Limited, a company controlled by Cheung Siu Lam and his wife, Lo Wan, held 57,600,000 shares in the Company.

(B) Subsidiaries

Name of subsidiary	Name of director	Number of non-voting deferred shares held (Personal interests)
K.P.A. Company Limited	Cheung Siu Lam	1
K.P.I. Development Limited	Cheung Siu Lam	1,300
K.P.I. Industries Limited	Cheung Siu Lam	1
K.P.I. International Trading Company Limited	Cheung Siu Lam	1
Malden Trading Limited	Cheung Siu Lam	1

Save as disclosed above, as at 31 December 2000, none of the directors or their associates had any interest or rights in the share capital of either the Company or any of its subsidiaries as defined in the SDI Ordinance.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme as further detailed in note 24 to the financial statements, share options were granted to certain of the Company's directors in 1999 and the movements of these share options during the year are set out below:

Name of director	Number of share options granted at beginning of the year	Exercised during the year	Number of share options outstanding at 31 December 2000	Exercise price of share options HK\$
Cheung Siu Lam	13,900,000	—	13,900,000	0.163
Chan Yuk Ming	10,200,000	—	10,200,000	0.163
Lim Kuo Chiang	5,200,000	—	5,200,000	0.163
Lo Wan	13,900,000	—	13,900,000	0.163
Zhang Wei	3,100,000	—	3,100,000	0.163
Cheung Siu Yan	2,500,000	—	2,500,000	0.163
Cheung Choi Chuen	6,000,000	(6,000,000)	—	0.163
	<u>54,800,000</u>	<u>(6,000,000)</u>	<u>48,800,000</u>	

Each of the above directors paid HK\$1 as consideration for the granting of the share options. The above share options are exercisable between 18 November 1999 and 17 May 2004.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDER

At 31 December 2000, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following party was interested in 10% or more of the issued share capital of the Company:

	Number of shares beneficially owned
Arbalice Holdings Limited	57,600,000

Except as referred to above, no person, other than Cheung Siu Lam and Lo Wan whose interests are set out above, had registered an interest in the share capital of the Company that was recorded in the register required to be maintained under Section 16(1) of the SDI Ordinance.

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FINANCIAL ASSISTANCE TO AFFILIATED COMPANIES

In accordance with the provisions of Practice Note 19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), the Company and/or its subsidiaries have provided financial assistance to certain associates and jointly controlled entities, namely, Taicang Huifeng Chemical Fertilizer Co., Ltd., Beijing Jia Shun Edible Oil Co., Ltd., Langfang Huamei Grain and Oil Foods Co., Ltd., K.P.I. (BVI) Retail Management Company Limited, Guangzhou Yue Xiu Supermarket Co., Ltd., Guangzhou K.P.I. Commercial Co., Ltd., and K.P.I. Star Holdings Ltd. and/or their respective wholly-owned subsidiaries (together, the “Borrowers”).

As at 31 December 2000, obligations in relation to the above-mentioned advances and financial assistance by the Group continued to exist. Set out below is an unaudited pro forma combined balance sheet of the Borrowers as at 31 March 2001 (being the latest practicable date for determining the relevant figures) required to be disclosed under Practice Note 19 of the Listing Rules:

Unaudited Pro forma Combined Balance Sheet of Borrowers

As at 31 March 2001

	HK\$'000
Long term investments	<u>37,852</u>
Fixed assets	<u>138,718</u>
Current assets	307,662
Current liabilities	<u>(365,652)</u>
Net current liabilities	<u>(57,990)</u>
Net assets	<u>118,580</u>
Group's share of net assets	<u><u>38,026</u></u>
Financial assistance given by the Group:	
The Company and/or its wholly-owned subsidiaries	
Advances	11,157
Financial assistance	<u>79,038</u>
	<u><u>90,195</u></u>

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

DISTRIBUTABLE RESERVES

At 31 December 2000, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$56,273,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for approximately 87% of the Group's total turnover for the year and sales to the largest customer included therein amounted to approximately 71% of the Group's total turnover.

The aggregate purchases from the five largest suppliers of the Group accounted for approximately 73% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 19% of the Group's total purchases.

As far as the directors are aware, neither the directors, their associates, nor those shareholders which to the best of knowledge of the directors own more than 5% of the Company's share capital had any beneficial interest in the Group's five largest customers and suppliers.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by this annual report. Independent non-executive directors of the Company are not appointed for a specific term, but are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Company's articles of association.

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AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Cheung Siu Lam
Chairman

Hong Kong
2 April 2001