

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- trading of chemical fertilisers, agricultural products and other products;
- property investment; and
- investment holding in retail business and manufacturing joint ventures in Mainland China.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and marketable securities as further explained below.

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### **Subsidiaries**

A subsidiary is a company, other than a jointly controlled entity or an associate, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries in the Company's balance sheet are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Jointly controlled entities**

A jointly controlled entity is a joint venture which involves the establishment of a separate entity in which each venturer has an interest. The jointly controlled entity operates in the same way as other enterprises, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity and none of the participating parties have unilateral control over the economic activity.

The Group's share of the post-acquisition results and reserves of jointly controlled entities are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values other than temporary in nature deemed necessary by the directors.

### **Associates**

An associate is a company, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values other than temporary in nature deemed necessary by the directors.

### **Goodwill arising on consolidation**

Goodwill arising on consolidation of subsidiaries and on the acquisition of associates and jointly controlled entities represents the excess of purchase consideration paid over the fair values ascribed to the net underlying assets acquired at the date of acquisition and is eliminated against reserves in the year of acquisition. On the disposal of subsidiaries, associates or jointly controlled entities, the relevant portion of attributable goodwill previously eliminated against reserves is written back and accounted for in determining the gain or loss on disposal.

# NOTES TO FINANCIAL STATEMENTS

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Capital reserve arising on consolidation**

The capital reserve arising on consolidation represents the excess of the fair values ascribed to the net underlying assets of the subsidiaries, associates and jointly controlled entities at the date of acquisition over the purchase consideration, and is credited to reserves. On the disposal of subsidiaries, associates or jointly controlled entities, the relevant portion of attributable capital reserve previously credited to reserves is written back and accounted for in determining the gain or loss on disposal.

### **Fixed assets and depreciation**

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Long term leasehold land	Over the unexpired lease terms
Buildings	2% to 10%
Leasehold improvements	20%
Motor vehicles	20%
Furniture and equipment	20%

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development has been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties with unexpired lease term of more than 20 years are not depreciated and are stated at their open market value on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of the previous valuations is released to the profit and loss account.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any estimated costs necessary to make the sale.

### **Cash equivalents**

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash and which are not restricted as to use.

### **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

# NOTES TO FINANCIAL STATEMENTS

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Foreign currencies**

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, associates and jointly controlled entities denominated in other currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. All translation differences arising on consolidation are included in the exchange fluctuation reserve.

### **Related parties**

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

### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the profit and loss account on the straight-line basis over the lease terms.

### **Long term investments**

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any provisions for impairments in values deemed necessary by the directors, other than those considered to be temporary in nature, on an individual basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged is credited to the profit and loss account to the extent of the amounts previously charged.

# NOTES TO FINANCIAL STATEMENTS

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Marketable securities**

Marketable securities are investments in equity securities held for trading purposes and are stated at fair values based on the quoted market prices at the balance sheet date, on an individual basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

### **Golf club memberships**

Golf club memberships are stated at cost less provisions for diminutions in values deemed necessary by the directors.

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (d) disposal of property, when the legally binding sales contract is signed and exchanged and the transaction becomes unconditional; and
- (e) dividends, when the right to receive payment is established.

### **Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees in Hong Kong. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

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## 3. TURNOVER AND REVENUE

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, and the rental income received and receivable during the year.

The Group's revenue for the year arose from the following activities:

	2000 HK\$'000	1999 HK\$'000
Sale of goods	3,076,497	4,114,188
Gross and net rental income	<u>3,348</u>	<u>3,299</u>
Turnover	3,079,845	4,117,487
Interest income	24,799	9,862
Compensation income from a customer	4,114	—
Proceeds on disposal of an associate	93	1,935
Proceeds on disposal of a jointly controlled entity	—	4,967
Proceeds on disposal of fixed assets	1,589	14,043
Proceeds on disposal of marketable securities	39	—
Dividend income from long term unlisted investments	<u>561</u>	<u>—</u>
Total revenue for the year	<u><u>3,111,040</u></u>	<u><u>4,148,294</u></u>

# NOTES TO FINANCIAL STATEMENTS

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## 4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2000 HK\$'000	1999 HK\$'000
Depreciation	1,651	1,764
Operating lease rentals in respect of land and buildings	2,899	3,495
Auditors' remuneration:		
— current year	1,020	638
— underprovision in prior year	240	—
	<u>1,260</u>	<u>638</u>
Staff costs:		
— wages and salaries (including directors' remuneration — note 6)	14,544	12,759
Provision against amount due from an associate	187	1,096
Provision for impairment in value of long term investments	1,200	—
Provisions against amounts due from jointly controlled entities	1,378	—
Provision for diminution in value of an associate	2,407	—
Unrealised loss on changes in fair value of marketable securities	43	—
Sales commission, net	6,742	23,000
Loss/(gain) on disposal of equity interest in an associate	767	(494)
Loss on disposal of a property	487	2,428
Fixed assets written off	8	84
Revaluation deficit on investment properties	6,877	—
Exchange gains, net	(387)	(63)
Interest income from:		
Bank deposits	(5,985)	(3,095)
Jointly controlled entities	(2,628)	(5,684)
Associates	(245)	(289)
Customers	(14,648)	—
Others	(1,293)	(794)
	<u>(24,799)</u>	<u>(9,862)</u>
Dividend income from long term unlisted investments	(561)	—
Compensation income from a customer	(4,114)	—
Gross and net rental income	(3,348)	(3,299)
Gain on disposal of marketable securities	(4)	—
Gain on disposal of equity interest in a jointly controlled entity	—	(621)
	<u>—</u>	<u>(621)</u>



# NOTES TO FINANCIAL STATEMENTS

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## 5. FINANCE COSTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest expense on bank loans, bank overdrafts and other loans repayable within five years	<u>22,527</u>	<u>28,046</u>

## 6. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Companies Ordinance is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	—	—
	<u>—</u>	<u>—</u>
Executive directors:		
Salaries, allowances and benefits in kind	6,101	5,854
Bonuses	389	371
	<u>6,490</u>	<u>6,225</u>
	<u>6,490</u>	<u>6,225</u>

# NOTES TO FINANCIAL STATEMENTS

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## 6. DIRECTORS' REMUNERATION (continued)

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
Nil - HK\$1,000,000	10	9
HK\$1,000,001 - HK\$1,500,000	1	—
HK\$3,000,001 - HK\$3,500,000	1	1
	<u>12</u>	<u>10</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No value is included in directors' remuneration in respect of share options granted because, in the absence of a readily available market value for the options on the Company's shares, the directors were unable to arrive at an accurate assessment of the value of the options granted. Further details of the options granted to the directors are set out in note 24 to the financial statements.

## 7. FIVE HIGHEST PAID EMPLOYEES

Among the five highest paid employees, three (1999: three) are executive directors whose remuneration is disclosed in note 6 to the financial statements. The details of the remuneration of the remaining two (1999: two) highest paid, non-director employees are set out below:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,326	1,092
Bonuses	56	91
	<u>1,382</u>	<u>1,183</u>

The remuneration of these highest paid, non-director employees for the year fell within the following band:

	Number of employees	
	2000	1999
Nil - HK\$1,000,000	<u>2</u>	<u>2</u>

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## 8. TAX

	Group	
	2000	1999
	HK\$'000	HK\$'000
Company and subsidiaries:		
The People's Republic of China:		
Hong Kong — provision for the year	(2,544)	(850)
Elsewhere — overprovision/(provision) for the year and prior years, net	<u>1,119</u>	<u>(1,330)</u>
	(1,425)	(2,180)
Share of tax attributable to:		
Associates	(135)	(90)
Jointly controlled entities	<u>(112)</u>	<u>—</u>
Tax charge for the year	<u><u>(1,672)</u></u>	<u><u>(2,270)</u></u>

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the places in which the Group operates based on existing law, practices and interpretations thereof.

No provision for deferred tax has been made for the year as the effect of all timing differences is immaterial.

## 9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year dealt with in the financial statements of the Company is HK\$2,125,000 (1999: loss of HK\$391,000).

The Group's share of aggregate profits less losses retained by the associates and jointly controlled entities for the year amounted to aggregate profits of HK\$1,029,000 and losses of HK\$13,820,000, respectively (1999: profits of HK\$184,000 and losses of HK\$7,487,000, respectively).

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## 10. DIVIDEND

	2000 HK\$'000	1999 HK\$'000
Interim — Nil (1999: 1 cent) per ordinary share	<u>—</u>	<u>5,584</u>

## 11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$8,017,000 (1999: HK\$9,883,000) and the weighted average of 562,843,393 shares (1999: 551,803,828 shares) in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$8,017,000. The weighted average number of shares used in the calculation is 562,843,393 shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 14,538,585 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all exercisable options during the year.

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## 12. FIXED ASSETS

### Group

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
Cost:					
At 1 January 2000	21,683	2,341	3,942	2,960	30,926
Additions	—	—	653	191	844
Disposals	(2,251)	—	—	—	(2,251)
Write-off	—	—	—	(32)	(32)
Reclassification to investment properties	(12,577)	—	—	—	(12,577)
At 31 December 2000	<u>6,855</u>	<u>2,341</u>	<u>4,595</u>	<u>3,119</u>	<u>16,910</u>
Accumulated depreciation:					
At 1 January 2000	1,609	1,722	3,322	2,103	8,756
Provided during the year	270	456	351	574	1,651
Disposals	(175)	—	—	—	(175)
Write-off	—	—	—	(24)	(24)
Reclassification to investment properties	(700)	—	—	—	(700)
At 31 December 2000	<u>1,004</u>	<u>2,178</u>	<u>3,673</u>	<u>2,653</u>	<u>9,508</u>
Net book value:					
At 31 December 2000	<u><u>5,851</u></u>	<u><u>163</u></u>	<u><u>922</u></u>	<u><u>466</u></u>	<u><u>7,402</u></u>
At 31 December 1999	<u><u>20,074</u></u>	<u><u>619</u></u>	<u><u>620</u></u>	<u><u>857</u></u>	<u><u>22,170</u></u>

# NOTES TO FINANCIAL STATEMENTS

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## 12. FIXED ASSETS (continued)

The cost of the Group's land and buildings, which are held under long term leases, is analysed as follows:

	2000 HK\$'000	1999 HK\$'000
Situated in:		
Hong Kong	3,726	16,303
Elsewhere	3,129	5,380
	<u>6,855</u>	<u>21,683</u>

### Company

	Furniture and equipment HK\$'000
Cost:	
At 1 January 2000	19
Additions	<u>5</u>
At 31 December 2000	<u>24</u>
Accumulated depreciation:	
At 1 January 2000	8
Provided during the year	<u>5</u>
At 31 December 2000	<u>13</u>
Net book value:	
At 31 December 2000	<u><u>11</u></u>
At 31 December 1999	<u><u>11</u></u>

# NOTES TO FINANCIAL STATEMENTS

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## 13. INVESTMENT PROPERTIES

	Group	
	2000 HK\$'000	1999 HK\$'000
At valuation:		
Balance at beginning of year	40,000	43,500
Reclassification from fixed assets	11,877	—
Deficit on revaluation	(6,877)	(3,500)
	<u>45,000</u>	<u>40,000</u>
Balance at end of year	<u><u>45,000</u></u>	<u><u>40,000</u></u>

The Group's investment properties are situated on 13th Floor, First Pacific Bank Centre, 51-57 Gloucester Road, Wanchai, Hong Kong, and Flat B1, 16/E, Block B and Carpark No. 119 at Carpark 4, Beverly Hill, No. 6, Broadwood Road, Happy Valley, Hong Kong. Both are held under long term leases for commercial and residential use, respectively. The investment properties were revalued on 31 December 2000 by Centaline Surveyors Limited, an independent professionally qualified valuers, at open market value, based on existing use.

The above properties and certain of the Group's leasehold land and buildings amounting to HK\$3,726,000 (1999: HK\$3,726,000) were pledged to the Group's bankers to secure facilities of HK\$444,600,000. At 31 December 2000, such facilities were utilised to the extent of HK\$144,137,000.

## 14. INTERESTS IN SUBSIDIARIES

	Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	10	10
Due from subsidiaries	182,194	178,298
Due to a subsidiary	(1,662)	(963)
	<u>180,542</u>	<u>177,345</u>
	<u><u>180,542</u></u>	<u><u>177,345</u></u>

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

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## 14. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation	Issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Asia Million Investment Limited	Hong Kong	Ordinary HK\$10,000	100%	—	Investment holding
K.P.A. Company Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$2	100%	—	Trading of chemical fertilisers
K.P.I. Development Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$10,000	100%	—	Trading of chemical fertilisers
K.P.I. Enterprises Limited	Hong Kong	Ordinary HK\$2	100%	—	Dormant
K.P.I. Industries Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$2	100%	—	Investment holding and property investment
K.P.I. International Trading Company Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$2	100%	—	Trading of agricultural products
Malden Trading Limited	British Virgin Islands	Ordinary US\$2 Deferred US\$2	100%	—	Provision of marketing services



# NOTES TO FINANCIAL STATEMENTS

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## 14. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation	Issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Million System Limited	Hong Kong	Ordinary HK\$2	100%	—	Dormant
Charter Merit Limited	Hong Kong	Ordinary HK\$2	—	100%	Holding of a club membership
Charter Paradise Limited	Hong Kong	Ordinary HK\$2	—	100%	Holding of a club membership
Hualian KPI Marketing Company Limited	Hong Kong	Ordinary HK\$7	—	100%	Dormant
Power Growth International Limited	British Virgin Islands	Ordinary US\$1	—	100%	Provision of marketing services

All subsidiaries have their place of operations in their place of incorporation, except for Malden Trading Limited and Power Growth International Limited which operate in Mainland China.

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## 15. INTERESTS IN ASSOCIATES

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	8,459	8,290
Due from associates ( <i>Note</i> )	3,441	4,957
	<u>11,900</u>	<u>13,247</u>
Less: Provision against amount due from an associate	(187)	(1,096)
Provision for diminution in value of an associate	(2,407)	—
	<u>9,306</u>	<u>12,151</u>

*Note:* Except for a balance with Taicang Huifeng Chemical Fertilizer Co., Ltd. of HK\$3,189,000, which bears interest at 7.344% per annum, the remaining balances with the associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the associates, all held indirectly through subsidiaries, are as follows:

Name	Business structure	Place of registration and operations	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Deyang Zhong-Nong Chemical Industry Development Co., Ltd.#	Corporate	Mainland China	25%	25%	Dormant
Jiangsu Wah Kai Printing*#	Corporate	Mainland China	—	49%	Dormant
Taicang Huifeng Chemical Fertilizer Co., Ltd.#	Corporate	Mainland China	30%	30%	Processing and trading of chemical fertilisers

\* The English company names are direct translations of the registered names in Chinese.

# Not audited by Ernst & Young.

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## 16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	32,815	44,984
Due from jointly controlled entities	<u>10,593</u>	<u>10,445</u>
	43,408	55,429
Less: Provisions against amounts due from jointly controlled entities	<u>(1,378)</u>	<u>—</u>
	<u><u>42,030</u></u>	<u><u>55,429</u></u>

Except for a balance with Guangzhou K.P.I. Commercial Co., Ltd. of HK\$3,401,000, which bears interest at 7.62% per annum, the remaining balances with the jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the jointly controlled entities, all held indirectly through subsidiaries, are as follows:

Name	Business structure	Place of incorporation or registration/ operations	Percentage of equity and profit attributable to the Group		Principal activities
			2000	1999	
Beijing Jia Shun Edible Oil Co., Ltd.	Corporate	Mainland China	55%	55%	Processing of edible oil
China Growth Enterprises Limited#	Corporate	British Virgin Islands/ Hong Kong	50%	—	Investment holding
Guangzhou K.P.I. Commercial Co., Ltd.*	Corporate	Mainland China	26%	18.2%	Investment holding

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## 16. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

Name	Business structure	Place of incorporation or registration/ operations	Percentage of equity and profit attributable to the Group		Principal activities
			2000	1999	
Guangzhou Yue Xiu Supermarket Co., Ltd.	Corporate	Mainland China	13.5%	9.5%	Supermarket chain stores operations
Haikou K.P.I. Trading Co., Ltd.	Corporate	Mainland China	51%	51%	Investment holding
K.D.I. Investment Company Limited	Corporate	Hong Kong	51%	51%	Dormant
K.P.I. (BVI) Retail Management Company Limited	Corporate	British Virgin Islands/ Hong Kong	51%	51%	Investment holding
K.P.I. Beatrice Holdings Ltd.	Corporate	Cayman Islands/ Hong Kong	26%	26%	Investment holding
K.P.I. Star Holdings Ltd. (formally known as Wah Lian (Overseas) Company Limited)#	Corporate	British Virgin Islands/ Hong Kong	50%	—	Investment holding
K.P.I. Star (China) Cyberpower Holdings Limited*#	Corporate	Mainland China	32.5%	—	E-commerce business
Langfang Huamei Grain and Oil Foods Co., Ltd.	Corporate	Mainland China	40%	40%	Processing of wheat flour and oil seed
Lantis Trading Corporation	Corporate	British Virgin Islands/ Hong Kong	26%	18.2%	Investment holding

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## 16. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

Name	Business structure	Place of incorporation or registration/ operations	Percentage of equity and profit attributable to the Group		Principal activities
			2000	1999	
Shanghai Hualian Economic Development Co., Ltd.*	Corporate	Mainland China	25.5%	25.5%	Supermarket chain stores operations
Shanghai Zhabei Hualian GMS Shopping Center Co., Ltd.*	Corporate	Mainland China	25.2%	25.2%	Supermarket chain stores operations

\* The English company names are direct translations of the registered names in Chinese.

# Not audited by Ernst & Young.

Extracts of the financial statements of the Group's material jointly controlled entities are as follows:

	K.P.I. (BVI) Retail Management Company Limited		Langfang Huamei Grain and Oil Foods Co., Ltd.	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
<b>Profit and loss accounts</b>				
Turnover	<u>—</u>	<u>—</u>	<u>374,175</u>	<u>423,543</u>
Profit/(loss) after tax	<u>(6,418)</u>	<u>(9,502)</u>	<u>(18,481)</u>	<u>9,758</u>
<b>Balance sheets</b>				
Non-current assets	38,292	28,893	88,199	93,570
Current assets	3,243	2,644	127,514	131,498
Current liabilities	<u>(13,696)</u>	<u>(488)</u>	<u>(169,171)</u>	<u>(160,045)</u>
Net assets	<u>27,839</u>	<u>31,049</u>	<u>46,542</u>	<u>65,023</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 17. LONG TERM INVESTMENTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Unlisted equity investments, at cost	2,272	2,272
Less: Provision for impairment in value	<u>(1,200)</u>	<u>—</u>
	<u>1,072</u>	<u>2,272</u>

## 18. MARKETABLE SECURITIES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Listed equity investments, at market value:				
Hong Kong	<u>1,705</u>	<u>—</u>	<u>1,705</u>	<u>—</u>

The market value of the Group's marketable securities at the date of approval of these financial statements was approximately HK\$1,860,000.

## 19. INVENTORIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Finished goods	<u>—</u>	<u>288</u>

# NOTES TO FINANCIAL STATEMENTS

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## 20. TRADE AND BILLS RECEIVABLES

The ageing analysis of trade and bills receivables is as follows:

	Group			
	2000		1999	
	Balance	Percentage	Balance	Percentage
	HK\$'000	%	HK\$'000	%
Less than 1 month	12,919	7.29	248,071	87.09
1 - 3 months	158,734	89.60	26,880	9.44
4 - 6 months	844	0.48	8,928	3.13
7 - 12 months	—	—	734	0.26
Over 1 year	4,654	2.63	216	0.08
	<u>177,151</u>	<u>100</u>	<u>284,829</u>	<u>100</u>

The Group's trade receivables are normally invoiced with credit terms of 0-90 days from date of invoice.

The ageing analysis of trade receivables due from jointly controlled entities is as follows:

	Group			
	2000		1999	
	Balance	Percentage	Balance	Percentage
	HK\$'000	%	HK\$'000	%
Less than 1 month	1,799	4.74	36,457	30.61
1 - 3 months	33,834	89.15	11,553	9.70
4 - 6 months	212	0.56	66,961	56.22
7 - 12 months	93	0.25	655	0.55
Over 1 year	2,012	5.30	3,481	2.92
	<u>37,950</u>	<u>100</u>	<u>119,107</u>	<u>100</u>

Trade receivables from jointly controlled entities are normally invoiced with credit terms of 30-90 days from date of invoice.

Trade receivables from jointly controlled entities are unsecured and bear interest from 6% to 11.5% per annum.

# NOTES TO FINANCIAL STATEMENTS

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## 21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Cash and bank balances	26,184	3,798	578	494
Time deposits	18,979	3,958	—	—
	<u>45,163</u>	<u>7,756</u>	<u>578</u>	<u>494</u>

## 22. INTEREST-BEARING BANK BORROWINGS

	Group	
	2000 HK\$'000	1999 HK\$'000
Bank loans, secured	4,110	15,606
Trust receipts, secured	140,027	184,355
	<u>144,137</u>	<u>199,961</u>
Portion classified as current liabilities	<u>(144,137)</u>	<u>(199,961)</u>
Long term portion	<u>—</u>	<u>—</u>

The Group's bank loans are secured by:

- (i) A pledge over the Group's leasehold land and buildings and investment properties with cost and revalued amount of HK\$3,726,000 and HK\$45,000,000, respectively; and
- (ii) A pledge on the Group's fixed deposits of HK\$67,008,000.



# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 23. DEFERRED TAX

	Group	
	2000 HK\$'000	1999 HK\$'000
Balance at beginning and end of year	<u>150</u>	<u>150</u>

The provision for deferred tax represents timing differences arising from accelerated depreciation allowances.

The revaluation of the Group's investment properties is not deemed to constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

The Group and the Company had no significant unprovided deferred tax at the balance sheet date.

## 24. SHARE CAPITAL

### Shares

	Company	
	2000 HK\$'000	1999 HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
564,433,557 (1999: 558,433,557) ordinary shares of HK\$0.10 each	<u>56,443</u>	<u>55,843</u>

On 6 April 2000, 6,000,000 new ordinary shares of HK\$0.10 each were issued for cash at HK\$0.163 per share pursuant to the exercise of 6,000,000 share options granted to one of the Company's directors under the Company's share option scheme.

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 24. SHARE CAPITAL *(continued)*

### Share options

On 19 March 1993, the Company adopted a share option scheme (the “Scheme”) under which the directors may, at their discretion, grant to directors and employees of the Group the right to subscribe for shares in the capital of the Company. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10% of the share capital of the Company in issue from time to time. The Scheme will remain in force for a period of ten years from the date of its adoption.

On 18 May 1999, the Company granted 54,800,000 share options to the executive directors of the Company, and each of the directors paid a consideration of HK\$1 for the share options, to subscribe for shares in the Company. The share options entitle the registered holder to subscribe in cash for fully paid ordinary shares of HK\$0.10 each in the Company at HK\$0.163 per share during the period from 18 November 1999 to 17 May 2004. 6,000,000 share options were exercised during the year.

On 8 July 1999, the Company granted 1,000,000 share options to an employee of the Group, and the employee paid a consideration of HK\$1 for the share options, to subscribe for shares in the Company. The share options entitle the registered holder to subscribe in cash for fully paid ordinary shares of HK\$0.10 each in the Company at HK\$0.218 per share during the period from 8 January 2000 to 7 July 2004.

During the year, 6,000,000 share options were exercised. The exercise in full of the outstanding share options as at 31 December 2000 would, under the present capital structure of the Company, result in the issue of 49,800,000 additional ordinary shares of HK\$0.10 each and cash proceeds of approximately HK\$8,172,000 before the related issue expenses.

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 25. RESERVES

### Group

	Share premium account HK\$'000	Capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Expansion fund* HK\$'000	Exchange fluctuation reserve HK\$'000	Reserve funds* HK\$'000	Retained profits HK\$'000 (note 26)	Total HK\$'000
At 1 January 1999	103,461	51,643	3,500	—	2,899	30	26,580	188,113
Issue of new shares	5,119	—	—	—	—	—	—	5,119
Share issue expenses	(295)	—	—	—	—	—	—	(295)
Retained profit for the year	—	—	—	—	—	—	4,299	4,299
Revaluation deficit	—	—	(3,500)	—	—	—	—	(3,500)
Goodwill written back on disposal of a jointly controlled entity	—	3,773	—	—	—	—	—	3,773
Goodwill on acquisition of a jointly controlled entity	—	(1,926)	—	—	—	—	—	(1,926)
Realised upon disposal of an associate	—	—	—	—	104	—	—	104
At 31 December 1999 and 1 January 2000	108,285	53,490	—	—	3,003	30	30,879	195,687
Issue of new shares	378	—	—	—	—	—	—	378
Retained profit for the year	—	—	—	—	—	—	8,017	8,017
Share of movements in reserves of a jointly controlled entity	—	60	—	—	—	—	—	60
Share of movements in reserves of an associate	—	—	—	74	—	74	(148)	—
At 31 December 2000	<u>108,663</u>	<u>53,550</u>	<u>—</u>	<u>74</u>	<u>3,003</u>	<u>104</u>	<u>38,748</u>	<u>204,142</u>

\* Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's associates in Mainland China has been transferred to reserve funds and expansion fund which are restricted as to use.

## 26. RETAINED PROFITS

	Group	
	2000 HK\$'000	1999 HK\$'000
Retained by:		
Company and its subsidiaries	87,849	67,642
Associates	(2,645)	(4,127)
Jointly controlled entities	(46,456)	(32,636)
	<u>38,748</u>	<u>30,879</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2000 HK\$'000	1999 HK\$'000
Profit from operating activities	44,760	47,412
Interest income	(24,799)	(9,862)
Depreciation	1,651	1,764
Dividend income from long term unlisted investments	(561)	—
Provision against amount due from an associate	187	1,096
Provision for diminution in value of an associate	2,407	—
Gain on disposal of equity interest in a jointly controlled entity	—	(621)
Loss/(gain) on disposal of equity interest in an associate	767	(494)
Loss on disposal of a property	487	2,428
Fixed assets written off	8	84
Unrealised loss on changes in fair value of marketable securities	43	—
Gain on disposal of marketable securities	(4)	—
Provisions against amounts due from jointly controlled entities	1,378	—
Provision for impairment in value of long term investments	1,200	—
Revaluation deficit on investment properties	6,877	—
Decrease in inventories	288	12
Decrease in trade and bills receivables	107,678	150,222
Decrease in trade receivables due from jointly controlled entities	81,157	73,908
Decrease in other receivables	3,263	10,570
Increase/(decrease) in bills payables	(100,765)	1,512
Increase/(decrease) in other payables and accruals	(22,699)	43,625
Increase/(decrease) in deferred income	(2,136)	3,234
	<u>101,187</u>	<u>324,890</u>
Net cash inflow from operating activities	<u>101,187</u>	<u>324,890</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Bank loans HK\$'000
Balance at 1 January 1999	149,997	15,228
Cash inflow from financing, net	<u>14,131</u>	<u>378</u>
Balance at 31 December 1999 and 1 January 2000	164,128	15,606
Cash inflow/(outflow) from financing, net	<u>978</u>	<u>(11,496)</u>
Balance at 31 December 2000	<u><u>165,106</u></u>	<u><u>4,110</u></u>

## 28. COMMITMENTS

At the balance sheet date, the Group and the Company had the following commitments not provided for in these financial statements:

### (a) Capital commitments

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Capital commitments:				
Contracted, but not provided for in respect of capital contributions to a jointly controlled entity	<u>74,915</u>	<u>75,820</u>	<u>—</u>	<u>—</u>

In addition, the Group's share of capital commitments of jointly controlled entities not included in the above are as follows:

	2000 HK\$'000	1999 HK\$'000
Contracted, but not provided for	<u>9,412</u>	<u>976</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 28. COMMITMENTS (continued)

- (b) Annual commitments under non-cancellable operating leases in respect of land and buildings payable in the following year are as follows:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Leases expiring:				
Within one year	—	2,623	—	2,604
In the second to fifth years, inclusive	<u>2,773</u>	<u>—</u>	<u>1,581</u>	<u>—</u>
	<u><b>2,773</b></u>	<u><b>2,623</b></u>	<u><b>1,581</b></u>	<u><b>2,604</b></u>

## 29. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had contingent liabilities not provided for in these financial statements as follows:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bills discounted with recourse	136,466	24,571	—	—
Guarantees given to banks in connection with facilities granted and utilised by the subsidiaries	<u>—</u>	<u>—</u>	<u>144,137</u>	<u>184,355</u>
	<u><b>136,466</b></u>	<u><b>24,571</b></u>	<u><b>144,137</b></u>	<u><b>184,355</b></u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 30. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties other than those disclosed elsewhere in the financial statements:

		Group	
		2000	1999
	Notes	HK\$'000	HK\$'000
Sales to the Group's jointly controlled entities	(i)	117,468	272,114
Trade interest income from the Group's jointly controlled entities	(ii)	2,105	4,464
Loan interest income from the Group's jointly controlled entities	(iii)	523	1,220
Loan interest income from an associate	(iv)	245	289
Rental expenses to companies controlled by directors	(v)	1,393	—
Import service fee received from the Group's jointly controlled entities		<u>—</u>	<u>2,131</u>

Notes:

- (i) Sales to the Group's jointly controlled entities were made according to the published prices and conditions offered to the major customers of the Group.
- (ii) Trade interest income was charged to the Group's jointly controlled entities from 6% to 11.5% per annum for the outstanding bills and trade receivable balances.
- (iii) Loan interest income was charged to the Group's jointly controlled entities for loans advanced to those jointly controlled entities during the year from 7% to 7.62% per annum.
- (iv) Loan interest income was charged to an associate for loans advanced during the year at 7.344% per annum. As at the balance sheet date, the principal amount of loans advanced of HK\$3,189,000 remained unsettled.
- (v) Rental expenses for two directors were paid to companies controlled by them. The monthly rentals of HK\$83,000 and HK\$40,000, respectively were calculated by reference to open market rentals.

## 31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 2 April 2001.