



K.P.I. Company Limited

2020

INTERIM REPORT

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The Board of Directors (the “Board”) of K.P.I. Company Limited (the “Company”) is pleased to present the unaudited condensed consolidated accounts of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2001 together with the comparative figures for the six months ended 30th June 2000 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Note</i>	Unaudited Six months ended 30th June 2001 HK\$'000	Unaudited Six months ended 30th June 2000 HK\$'000
TURNOVER	3	1,094,005	1,599,953
Cost of sales		<u>(1,079,775)</u>	<u>(1,571,193)</u>
Gross profit		14,230	28,760
Other revenues		8,535	5,577
Administrative expenses		(14,266)	(12,999)
Other operating expenses		<u>(46,656)</u>	<u>(2,780)</u>
PROFIT /(LOSS) FROM OPERATING ACTIVITIES	4	(38,157)	18,558
Finance costs	5	(3,091)	(7,861)
Share of profits less losses of:			
Associates		563	1,012
Jointly controlled entities		<u>(6,326)</u>	<u>(1,273)</u>
PROFIT/(LOSS) BEFORE TAX		(47,011)	10,436
Taxation	6	<u>(94)</u>	<u>(1,808)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(47,105)</u>	<u>8,628</u>
EARNINGS/(LOSS) PER SHARE			
— Basic	8	<u>(8.35) cents</u>	<u>1.54 cents</u>
— Diluted		<u>N/A</u>	<u>1.48 cents</u>

The profit/(loss) attributable to shareholders is the only component of the statement of recognized gains and losses for the period and accordingly no separate statement has been prepared.

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2001

	Unaudited 30th June 2001 <i>HK\$'000</i>	Audited 31st December 2000 <i>HK\$'000</i>
<i>Note</i>		
NON-CURRENT ASSETS		
Fixed assets	6,867	7,402
Investment properties	34,000	45,000
Interests in associates	9,688	9,306
Interests in jointly controlled entities	12,055	42,030
Long term investments	773	1,072
Golf club memberships	3,125	3,125
	66,508	107,935
CURRENT ASSETS		
Marketable securities	1,862	1,705
Trade and bills receivables	9 301,289	177,151
Trade receivables due from jointly controlled entities	0	37,950
Other receivables	11,750	27,963
Pledged time deposits	69,181	67,008
Cash and cash equivalents	63,643	45,163
	447,725	356,940
CURRENT LIABILITIES		
Interest-bearing bank borrowings	102,377	144,137
Tax Payable	8,465	8,442
Other payables and accruals	177,417	50,463
Deferred income	141	990
	288,400	204,032

	Unaudited 30th June 2001 <i>Note</i> HK\$'000	Audited 31st December 2000 <i>HK\$'000</i>
NET CURRENT ASSETS	<u>159,325</u>	<u>152,908</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>225,833</u>	<u>260,843</u>
NON-CURRENT LIABILITIES AND DEFERRED INCOME		
Deferred income	0	108
Deferred tax	<u>150</u>	<u>150</u>
	<u>150</u>	<u>258</u>
	<u>225,683</u>	<u>260,585</u>
CAPITAL AND RESERVES		
Share capital	56,443	56,443
Reserves	<u>169,240</u>	<u>204,142</u>
	<u>225,683</u>	<u>260,585</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2001

	Unaudited Six months ended 30th June 2001 HK\$'000
Net cash inflow from operating activities	52,428
Returns on investments and servicing of finance	2,280
Tax	(71)
Investing activities	<u>5,603</u>
Net cash inflow before financing activities	60,240
Financing activities	<u>(4,110)</u>
Increase in cash and cash equivalents	56,130
Cash and cash equivalents at 1st January 2001	<u>(94,864)</u>
Cash and cash equivalents at 30th June 2001	<u><u>(38,734)</u></u>
Analysis of balances of cash and cash equivalents:	
Cash and bank balances	14,843
Time deposits	48,800
Trust receipt loans	<u>(102,377)</u>
	<u><u>(38,734)</u></u>

NOTES TO CONDENSED INTERIM ACCOUNTS

1. Accounting policies

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No.25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants, except that as mentioned in note 2 below, a comparative cash flow statement has not been prepared. The accounting policies and basis of preparation are the same as those used in the annual financial statements for the year ended 31st December 2000. Figures for the year ended 31st December 2000 are extracted from the Group’s annual financial statements for that year.

The Group has complied with SSAP 14 (revised) for the first time in this interim reporting period. As a result, total future minimum operating lease commitments are disclosed instead of annual operating lease commitments under non-cancellable operating leases. Figures for the year ended 31st December 2001 are extracted from the Group’s audited financial statements for that year.

2. Comparative cash flow statement

The comparative cash flow statement for the six months ended 30th June 2000 has not been prepared which permitted by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

3. Segmental information

An analysis of the Group’s turnover and contribution to profit/(loss) from operating activities by principal activity and the Group’s turnover by geographical location for the six months ended 30th June 2001 are as follows:

	Turnover		Contribution to profit/(loss) from operating activities	
	Unaudited		Unaudited	
	For the six months ended 30th June			
	2001	2000	2001	2000
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
By activity:				
Trading of chemical fertilizers	555,436	1,344,902	4,073	15,379
Trading of agricultural products	537,269	253,406	(43,530)	1,534
Property investment	1,300	1,645	1,300	1,645
	<u>1,094,005</u>	<u>1,599,953</u>	<u>(38,157)</u>	<u>18,558</u>

	Turnover Unaudited For the six months ended 30th June	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
By geographical location:		
The People's Republic of China:		
Hong Kong	1,300	1,645
Elsewhere	1,006,913	1,544,951
Others	85,792	53,357
	<u>1,094,005</u>	<u>1,599,953</u>

Contribution to profit/(loss) from operating activities by geographical location is not presented as the contribution from each region is substantially in line with the ratio of profit/(loss) to turnover of the Group.

4. Profit/(loss) from operating activities

Profit/(loss) from operating activities was determined after charging/(crediting) the following:

	For the six months ended 30th June	
	<i>HK\$'000</i>	<i>HK\$'000</i>
	2001	2000
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amortization	—	274
Depreciation	557	867
Operating lease rentals in respect of land & buildings	824	1,833
Interest income	(5,055)	(3,496)
Proceeds on disposal of marketable securities	(557)	(3)
	<u>(557)</u>	<u>(3)</u>

5. Finance costs

	For the six months ended 30th June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Interest expenses	<u>3,091</u>	<u>7,861</u>
	<u>3,091</u>	<u>7,861</u>

6. Taxation

	For the six months ended 30th June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Hong Kong profits tax	89	1,808
PRC enterprise income tax	<u>5</u>	<u>—</u>
Tax charges for the period	<u>94</u>	<u>1,808</u>

The Group companies provide for tax on the basis of their income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Hong Kong profits tax for the Company and subsidiaries in Hong Kong has been provided at the rate of 16% (2000:16%) on the estimated assessable profits which were earned in or derived from Hong Kong during the period. 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.

7. Dividends

The directors do not recommend payment of an interim dividend for the six months period ended 30th June 2001 (2000: HK\$Nil).

8. Earnings/(Loss) per share

The calculation of basic earnings/(loss) per share for the period is based on the net loss attributable to shareholders of HK\$47,105,000 (six months ended 30th June 2000: net profit of HK\$8,628,000) and the weighted average number of 564,433,557 (six months ended 30th June 2000: 561,235,755) shares in issue during the period.

Diluted earnings/(loss) per share for the six months ended 30th June 2001 has not been calculated as the exercise prices of the Company's outstanding share options were higher than the market price of the ordinary shares for the period. The weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share for the six months ended 30th June 2000 was 583,205,543 shares.

9. Trade and bills receivables

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

	30th June 2001 (Unaudited) HK\$'000	31st December 2000 (Audited) HK\$'000
Within 1 month	153,889	12,919
1 — 3 months	122,616	158,734
4 — 6 months	24,784	844
Over 1 year	—	4,654
	<u>301,289</u>	<u>177,151</u>

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

10. Related party transactions

	Notes	For the six months ended 30th June	
		2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Trade interest income from the Group's jointly controlled entities	(i)	—	93
Loan interest income from the Group's jointly controlled entities	(ii)	1,152	129
Loan interest expenses to the Group's jointly controlled entities	(iii)	248	—
Loan interest income from an associate	(iv)	108	—
Rental expenses to companies controlled by directors	(v)	738	655

Notes:

- (i) Trade interest income was charged to the Group's jointly controlled entities at 9.5% per annum for the outstanding bills and trade receivable balances.
- (ii) Loan interest income was charged to the Group's jointly controlled entities for loans advanced to those jointly controlled entities during the period from 2% to 7.62% per annum.
- (iii) Loan interest expenses paid to the Group's jointly controlled entity for loans advanced from that jointly controlled entities during the period was 2.875% per annum.
- (iv) Loan interest income was charged to an associate for loans advanced during the period at 7.344% per annum.
- (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.

11. Contingent liabilities

As at 30th June 2001, the Group and the Company had contingent liabilities not provided for in these financial statements as follows:

	Group		Company	
	30th June 2001 (Unaudited) HK\$'000	31st December 2000 (Audited) HK\$'000	30th June 2001 (Unaudited) HK\$'000	31st December 2000 (Audited) HK\$'000
Bills discounted with recourse	102,566	136,466	—	—
Guarantees given to banks in connection with facilities granted and utilized by the subsidiaries	—	—	102,377	144,137
	<u>102,566</u>	<u>136,466</u>	<u>102,377</u>	<u>144,137</u>

12. Commitments

At 30th June 2001, the Group had the following commitments not provided for in these financial statements:

(a) Capital commitments

	30th June 2001 (Unaudited) HK\$'000	31st December 2000 (Audited) HK\$'000
Capital commitments:		
Contracted, but not provided for in respect of capital contributions to a jointly controlled entities	<u>55,741</u>	<u>74,915</u>

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

	30th June 2001 (Unaudited) HK\$'000	31st December 2000 (Audited) HK\$'000
Contracted, but not provided for	<u>9,412</u>	<u>9,412</u>

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

	Group		Company	
	30th June 2001 (Unaudited) HK\$'000	31st December 2000 (Audited) HK\$'000	30th June 2001 (Unaudited) HK\$'000	31st December 2000 (Audited) HK\$'000
Leases expiring:				
Within one year	996	—	—	—
In the second to fifth years, Inclusive	<u>3,426</u>	<u>2,773</u>	<u>1,581</u>	<u>1,581</u>
	<u>4,422</u>	<u>2,773</u>	<u>1,581</u>	<u>1,581</u>

13. Approval of the interim financial report

The condensed interim financial statements were approved by the board of directors on 19th September 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

Highlights:

It was a difficult six months for the Company's overall operation. The adverse economic environment has reduced the Company's trading volume, which in return has a negative impact on the Company's main income source. However, it should be noted that the Company's retail business continues to show promising developments in China. For this reporting period, several major provisions were made. Firstly, a provision was made against the Company's investments in oilseed crushing facilities, after the joint venture partners have altogether agreed to shut down the unprofitable operations. Secondly, provisions were also made to reflect the diminishing value of the Company's investment property holdings in Hong Kong. Lastly, the Board has also decided to make a provision for its investment in "Business to Business" online sugar trading.

Trading:

During the first half of 2001, the worldwide economy slump and the unsolved issue of China's WTO entry have prompted the management to adopt a conservative approach towards the trading exposure in China. This is carried out to avoid potential risk associated with changes in government policy caused by these overhanging issues. Trading turnover from chemical fertilizer and agricultural products were slightly over and above one billion dollars - lowered by 30% compared to the same period last year. Despite gross margins of most trading business being maintained, the diminishing business volume has certainly impaired the operating results of the Company. Meanwhile, the Board is aggressively considering various compensatory and adjustment actions. Such actions include the elimination of redundant trading layers, and moving closer to the end buyers through greater involvement in the logistic operation in China. It is the Board's view that these new approaches will enhance both volume and profitability of the Company's trading activities.

Oilseeds Crushing:

As mentioned in the last report, the Company's oil-seed crushing facilities have become a financial liability, and, may even hinder the progress of the Company's trading activities. After taking all and available alternatives into consideration, the Board has decided to write-down the oil-seed crushing related assets before the end of 2001.

Retails:

The Company's retail business continues to produce excellent results with promising developments. In Shanghai, three new hypermarkets were opened in August - making a total of 8 stores in Shanghai area. The newly opened and existing stores have reached or exceeded their respective daily sales forecasts. The positive operating performance has encouraged the management to press on with the expansion plan more swiftly.

The convenience store operation has also been making progresses. Additional stores were opened in both Guangzhou and Beijing. Operating results at the store level are within expectation. Aside from opening new stores, the management has also unfolded a program to review the product mix and cost structure of the existing stores. Meanwhile an ambitious expansion plan for the Beijing convenience store operation has been established. The go-ahead green light is pending upon the current on-going discussion regarding a few final details among the investment partners of the convenience store project.

Judging from the current development of the retail operation, it is apparent that there is almost an imminent need for additional capital in the near future, prompting the Board to study various alternatives to satisfy the capital demand.

E-Business

The drastic downturn of the e-business economy has also stalled the momentum of the Company's project on "B2B" sugar-trading platform. After all the software and hardware are put in for business, the system was not able to generate expected revenue stream into the project. In view of the situation, the Board has decided to stop making any further capital injection and make full provision for the investment.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cashflow and banking facilities provided by its principal bankers. As at 30th June 2001, the Group has available aggregate bank loan facilities of approximately HK\$444,600,000, of which HK\$102,377,000 has been utilized and was secured by corporate guarantee issued by the Company and legal charges on certain asset including buildings in Hong Kong owned by the Group. The Group's cash and bank balances and short term bank deposits as at 30th June 2001 amounted to approximately HK\$132,824,000. The Group's gearing ratio as at 30th June 2001 was approximately 45%, based on the total bank borrowings of approximately HK\$102,377,000 and the shareholders' funds of approximately HK\$225,683,000. As the Group's borrowings and cash balances are primarily denominated in United States dollars, the Group has no significant exposure to foreign currency fluctuations.

EMPLOYEE INFORMATION

As at 30th June 2001, the Group employed approximately 30 full-time employees. The Group's employment policies are formulated on the performance of individual employees and are reviewed annually. The Group has introduced a performance bonus scheme to its employees as an incentive to encourage their contribution, subject to the profit of the Group and the performance of the employees. Some social and medical insurance coverages as well as access to a provident fund scheme are offered to our employees in different locations.

DIRECTOR'S INTERESTS IN SHARE CAPITAL AND SHARE OPTIONS

At 30th June 2001, the interests of the Directors and their associates in the share capital and share options 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

Ordinary Shares

Name of director	Number of shares held And nature of interest		Total
	Personal interest	Corporate interest	
Cheung Siu Lam	171,560,000	57,600,000 (Note)	229,160,000
Lo Wan	—	57,600,000 (Note)	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.

Share Options

Name of director	Number of shares options granted (Personal interests)
Cheung Siu Lam	13,900,000
Chan Yuk Ming	10,200,000
Lim Kuo Chiang	5,200,000
Lo Wan	13,900,000
Zhang Wei	3,100,000
Cheung Siu Yan	2,500,000
	<hr/>
	48,800,000

The above-mentioned options were granted on 18th May 1999 to the directors of the Company to subscribe for a total of 48,800,000 shares of the Company under the Company's Share Option Scheme. The options are exercisable from 18th November 1999 to 17th May 2004 at a subscription price of HK\$0.163 per share.

(B) SUBSIDIARIES

Name of subsidiary	Name of director	Number of non-voting deferred shares held (Personal interests)
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

Apart from the above, none of the Directors and their associates had any interests or rights in the share capital of the Company or its subsidiaries recorded in the register required to be kept under Section 29 of the SDI Ordinance as at 30th June 2001.

SUBSTANTIAL SHAREHOLDERS

At 30th June 2001, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following shareholder was interested in 10% or more of the issued share capital of the Company.

Name of shareholder	Number of shares held
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 10% or more of the issued share capital of the Company that was recorded in the register required to be maintained under section 16(1) of the SDI Ordinance.

AUDIT COMMITTEE

The Audit Committee had reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited condensed interim financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

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 of The Stock Exchange of Hong Kong Limited throughout the accounting period covered by this interim 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.

On behalf of the Board
Cheung Siu Lam
Chairman

Hong Kong SAR, 19th September 2001