



**K.P.I.
Company
Limited**



Interim Report 2003

03

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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 financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2003 together with the comparative figures for the six months ended 30 June 2002 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 30 June	
	Note	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
TURNOVER	2	236,791	70,816
Cost of sales		(233,618)	(70,315)
Gross profit		3,173	501
Other revenue		1,037	3,887
Administrative expenses		(6,178)	(8,569)
Other operating expenses		—	(14,329)
LOSS FROM OPERATING ACTIVITIES	3	(1,968)	(18,510)
Finance costs	4	(53)	(12)
Impairment loss of an associate		(4,139)	—
Share of result of an associate		—	82
Share of result of jointly-controlled entities		(563)	(926)
LOSS BEFORE TAXATION		(6,723)	(19,366)
Taxation	5	—	(39)
LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(6,723)	(19,405)
LOSS PER SHARE			
— Basic	7	HK(1.00) cents	HK(3.44) cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		4,998	4,974
Investment property		7,900	7,900
Goodwill		1,893	—
Investment in an associate		—	4,278
Investments in jointly-controlled entities		42,544	55,479
Long term investment		773	773
Golf club memberships		2,670	2,670
Long term other receivables		280	280
		61,058	76,354
CURRENT ASSETS			
Marketable securities		4,913	4,245
Trade and bills receivables	8	7,784	1,063
Other receivables		5,564	8,346
Pledged time deposits		36,156	35,955
Cash and cash equivalents		65,090	51,901
		119,507	101,510
CURRENT LIABILITIES			
Tax payable		771	771
Other payables and accruals		10,925	12,779
Deferred income		42	46
		11,738	13,596
NET CURRENT ASSETS		107,769	87,914
TOTAL ASSETS LESS CURRENT LIABILITIES		168,827	164,268
NON-CURRENT LIABILITIES			
Deferred tax		150	150
		168,677	164,118
CAPITAL AND RESERVES			
Share capital		67,725	56,443
Reserves	9	100,952	107,675
		168,677	164,118

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Total shareholders' equity at 1 January	164,118	200,371
New issue of shares	11,282	—
Net loss attributable to shareholders	<u>(6,723)</u>	<u>(19,405)</u>
Total shareholders' equity at 30 June	<u>168,677</u>	<u>180,966</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months
ended 30 June

	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Cash outflow from operating activities	(5,873)	(34,628)
Cash inflow from investing activities	7,780	19,541
Cash inflow from financing activities	11,282	—
Increase/(decrease) in cash and cash equivalents	13,189	(15,087)
Cash and cash equivalents at 1 January	51,901	75,532
Cash and cash equivalents at 30 June	<u>65,090</u>	<u>60,445</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	2,535	1,579
Time deposits	62,555	58,866
	<u>65,090</u>	<u>60,445</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Principal accounting policies

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants.

The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual audited financial statements for the year ended 31 December 2002 except that the Group has adopted the revised SSAP 12 "Income Taxes" which became effective on 1 January 2003. The adoption of SSAP 12 (Revised) has no material impact on the Group's interim financial statements.

2. Segmental information

The Group is principally engaged in the trading of chemical fertilizers, agricultural products and property investment. An analysis of the Group's turnover and contribution to loss from operating activities by business and geographical segments respectively are as follows:

	For the six months ended 30 June (Unaudited)			
	Turnover		Contribution to loss from operating activities	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
BUSINESS SEGMENTS				
Trading of chemical fertilizers	236,479	64,271	2,326	(1,913)
Trading of agricultural products	—	6,248	—	(242)
Property investment	312	297	282	266
Corporate and others	—	—	(5,242)	(5,867)
	<u>236,791</u>	<u>70,816</u>	<u>(2,634)</u>	<u>(7,756)</u>
Interest income and unallocated gains			666	3,534
Unallocated expenses			—	(14,288)
Loss from operating activities			<u>(1,968)</u>	<u>(18,510)</u>
GEOGRAPHICAL SEGMENTS				
The People's Republic of China:				
Hong Kong	312	1,336	(5,137)	(5,681)
Elsewhere	236,479	3,983	2,503	(218)
United States	—	64,271	—	(1,772)
Others	—	1,226	—	(85)
	<u>236,791</u>	<u>70,816</u>	<u>(2,634)</u>	<u>(7,756)</u>
Interest income and unallocated gains			666	3,534
Unallocated expenses			—	(14,288)
Loss from operating activities			<u>(1,968)</u>	<u>(18,510)</u>

3. Loss from operating activities

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

	For the six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Depreciation	194	378
Operating lease rentals in respect of land & buildings	1,289	1,289
Gain on disposal of marketable securities	(176)	(1,072)
(Gain)/Loss on disposal of fixed assets	(39)	101
Dividend income from marketable securities	(73)	—
	<u> </u>	<u> </u>

4. Finance costs

	For the six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Interest expenses on bank loans, bank overdrafts and other loans repayable within five years	53	12
	<u> </u>	<u> </u>
	<u>53</u>	<u>12</u>

5. Taxation

	For the six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Share of tax attributable to:		
An associate		
PRC income tax	—	39
	<u> </u>	<u> </u>
Tax charge for the period	<u> </u>	<u>39</u>

No Hong Kong profits tax has been provided for in the financial statements as the Group has no assessable profits for the period (2002: Nil).

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 legislation, practices and interpretations in respect thereof.

6. Interim dividend

The directors do not recommend the payment of an interim dividend for the six months period ended 30 June 2003 (2002: Nil).

7. Loss per share

The calculation of basic loss per share for the period is based on the net loss attributable to shareholders of HK\$6,723,000, (2002: net loss of HK\$19,405,000) and to the weighted average 674,135,037 (2002: 564,433,557) shares in issue during the period.

No diluted loss per share for the period ended 30 June 2003 has been presented because the Company's share options did not have a dilutive effect during the period.

8. Trade and bills receivables

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

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Within 1 month	—	1
1 – 3 months	7,784	—
4 – 6 months	—	732
7 – 12 months	—	273
Over 1 year	—	57
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	7,784	1,063
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

9. Reserves

	Share premium (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Statutory public welfare reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Statutory surplus reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2003	108,663	67,655	173	2,613	204	(71,633)	107,675
Net loss for the period	—	—	—	—	—	(6,723)	(6,723)
At 30 June 2003	<u>108,663</u>	<u>67,655</u>	<u>173</u>	<u>2,613</u>	<u>204</u>	<u>(78,356)</u>	<u>100,952</u>

10. Operating lease arrangements

(a) As lessor

The Group leases its investment property and golf club membership under operating lease arrangements, with leases negotiated for terms ranging from one to two years for investment property and one year for golf club membership. The terms of the leases generally also require the lessees to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Within one year	593	637
In the second to fifth years, inclusive	—	300
	<u>593</u>	<u>937</u>

(b) As lessee

The Group leases certain of its office properties and director's quarter under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years, and those for director's quarter for a term of 2 years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Within one year	1,391	2,001
In the second to fifth years, inclusive	1,292	67
After the fifth years	63	72
	<u>2,746</u>	<u>2,140</u>

11. Related party transactions

		For the six months ended 30 June	
	<i>Notes</i>	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Loan interest income from an associate	(i)	—	120
Rental expenses to companies controlled by directors	(ii)	<u>498</u>	<u>498</u>

Notes:

- (i) Loan interest income was charged to an associate on loans advanced during the period at a rate of 7.344% per annum.
- (ii) Rental expenses for a director was paid to a company controlled by him. The monthly rental of HK\$83,000 was calculated by reference to open market rental.

12. Approval of the interim financial report

The condensed interim financial statements were approved and authorised for issue by the Board of the Company on 9 September 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the first half of 2003, the Group's retail operations have expanded as per original plan and its trading business has also made sizeable improvement. The Group recorded approximately HK\$6.7 million operating loss (including a non-recurring HK\$4 million write-off), which is significantly better than the same period of the previous year (a total net loss of HK\$19 million). This better result shows that the Group has successfully controlled its operating expenditure, and the Board is satisfied with its current financial standing.

Retail Operation

The Group's hyper-market project has made swift progress, the total number of stores has increased from twelve (at the beginning of this year) to nineteen — including the three beach-heading stores in the Northern China region. Pre-tax sales during the six months period were approximately to RMB 1 billion — an increase of more than 50%. Judging from the project's expansion momentum, the Group's hyper-market chain-store operation is fully capable of taking up any challenge from the peer group operators. The Board is also confident of its management team to achieve the operating goals and objectives according to the budget prepared at the beginning of the year.

The Group's convenience-store operation has also accomplished decent results. The operation has increased 6 stores during the period — making a total of 27 stores in the Northern China region. Apart from opening up new stores, the convenience-store management team has further modified its product-mix according to the local preference. The latest modifications show promising signs; however further fine-tunings are expected before reaching an optimum plateau that attracts franchisers.

The Severe Acute Respiratory Syndrome (SARS) that crippled the Chinese economy during March, April and May this year has also affected the Groups' retail sales figures, however, signs showing business results are recovering since June and the Group believes the damages are confined within acceptable vicinity.

Trading Business

The main trading activities of the Group during the first six months of this year is clustered in chemical fertilizer. However, based on the current and forecasted supply and demand matrix structure, the Group has to maintain a cautious outlook towards the prospect of the trading business.

Over the years, investment opportunity to produce environment-friendly fertilizer has always been high on the Group's investment shopping list. Through numerous contacts and discussions with various research and academic institutions, the Group has gathered valuable information and knowledge on the subject. In June, a modest "research and business development" unit has been set up by the Group in Mainland China. The unit will be responsible for related business development of environment-friendly fertilizer. The Board will make proper announcement as the unit steps forward according to its progress and results.

Summary

Following the road map of development, the Group will continue to pour extra resources into its retail business. At the same time, in a bid to perk up its compatibility and scale, the Group is keeping a constantly lookout for skilled partner to join its retail business. As to trading business, the Group will maintain a tight grid to control business risk. Lastly, the Group will continue its search for environment-friendly fertilizer investment opportunity that matches the Group's pre-set criterion.

Liquidity and Financial Resources

As at 30 June 2003, the Group's cash and bank balance was over HK\$100 million, with a current ratio of 10.18. The Group has no significant exposure to foreign currency fluctuation.

Employee Information

As at 30 June 2003, the Group had 14 full-time staff. The Group has provided a performance bonus scheme, medical insurance and provident fund scheme.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 2003, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:

Long positions in shares of the Company:

Name of Director	Capacity	Number of ordinary shares interested	Notes	Percentage of issued share capital
Cheung Siu Lam	Beneficial owner	230,928,000		34.10%
Cheung Siu Lam	Interest in corporation	57,600,000	(1)	8.50%
Lo Wan	Beneficial owner	14,488,000		2.14%
Lo Wan	Interest in corporation	57,600,000	(2)	8.50%

Notes:

- (1) Mr Cheung Siu Lam is deemed to be interested in 57,600,000 shares which are held through Arbalice Holdings Limited, a controlled corporation of Mr Cheung Siu Lam pursuant to SFO.
- (2) Ms Lo Wan is deemed to be interested in 57,600,000 shares which are held by Arbalice Holdings Limited through the aggregation of her interests and her spouse, Mr Cheung Siu Lam's interests in Arbalice Holdings Limited.

Save as disclosed above, none of the Directors, chief executives or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations were recorded in the register required to be kept under Section 352 of the SFO as at 30 June 2003.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and reward to eligible participants who contribute to the success of the Group's operation on 19 March 1993. The Scheme expired on 19 March 2003.

Details of the share options granted under the Scheme and remain outstanding as at 30 June 2003 are as follows:

	Options held at 1 January 2003	Options granted during the period	Options exercised during the period	Options held at 30 June 2003	Exercise price (Note) HK\$	Grant date	Exercisable from	Exercisable until
Cheung Siu Lam	13,900,000	—	—	13,900,000	0.163	18 May 1999	18 Nov 1999	17 May 2004
Chan Yuk Ming	10,200,000	—	—	10,200,000	0.163	18 May 1999	18 Nov 1999	17 May 2004
Lo Wan	13,900,000	—	—	13,900,000	0.163	18 May 1999	18 Nov 1999	17 May 2004
Continuous contract employees	1,000,000	—	—	1,000,000	0.218	8 July 1999	8 Jan 2000	7 July 2004

Note: The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of

the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following company/person was interested in more than 5% of the issued share capital of the Company according to the register kept by the Company under Section 336 of the SFO:

Name	Long/short position	Capacity	Number of shares held	Percentage of issued share capital
Arbalice Holdings Limited (Note)	Long	Beneficial owner	57,600,000	8.50%
Cheung Choi Chuen	Long	Beneficial owner	51,400,000	7.59%

Note: The above interest in the name of Arbalice Holdings Limited was also disclosed as interests of Mr Cheung Siu Lam and Ms Lo Wan respectively in the above section headed "Directors' interests in the Company and its associated corporations"

Save as disclosed above, no person, other than the Directors whose interests are set out in the above section headed "Directors' interests in the Company and its associated corporations", had registered an interest or a short position in the shares and underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

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 for the six months ended 30 June 2003.

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 ("Code"), as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by this report, except that the 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 the annual general meeting of the Company in accordance with the Company's Articles of Association.

On behalf of the Board

Cheung Siu Lam

Chairman

Hong Kong, 9 September 2003