K.P.I. COMPANY LIMITED

Stock Code: 605

Annual Report 2008

Contents

Corporate Information

DIRECTORS

Executive Directors
Mr Cheung Siu Lam *(Chairman)*
Mr Chan Yuk Ming *(Vice-Chairman)*
Madam Lo Wan

Non-Executive Director
Mr Liu Hui

Independent Non-Executive Directors
Mr Wang Jian Sheng
Mr Chan Chun Keung
Mr Tsang Kwok Wai

COMPANY SECRETARY

Mr Chung Chin Keung FCCA, FCPA, ACA

AUDITOR

CCIF CPA Limited

AUDIT COMMITTEE

Mr Tsang Kwok Wai *(Chairman)*
Mr Wang Jian Sheng
Mr Chan Chun Keung

REMUNERATION COMMITTEE

Madam Lo Wan *(Chairman)*
Mr Tsang Kwok Wai
Mr Wang Jian Sheng
Mr Chan Chun Keung

PRINCIPAL BANKERS

Bank of China
Everbright Bank
China Merchants Bank
Bank of Communications

SHARE REGISTRARS

Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

Suite 5606
56th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

STOCK CODE: 605

WEBSITE

www.kpi.com.hk

"Despite the uncertainties in the macro economy, we have taken appropriate & timely actions to secure stable growth of the Company"

On behalf of the board of directors (the "Board"), I am pleased to present to the shareholders the annual report of K.P.I. Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2008. Revenue of the Group for the year ended 31 December 2008 was approximately HK$1,777 million. The net profit attributable to shareholders was HK$247.7 million. Net asset value per share is HK$0.456.

Chairman's Statement

The Year 2008 is an important year for us. By acquiring the controlling interest in Hualian GMS in Shanghai and the trademark and operation of a convenience store in Beijing, the Group has laid a solid business foundation. Despite the impact of the global financial turmoil, the mainland central government has taken immediate action by introducing various stimulus measures to drive consumer consumption and infrastructure developments. China's gross domestic product still reaches a 9% growth rate in 2008. Benefited from the sustained growth in Mainland China's economy, the Group has got a remarkable result in 2008. During the year, the Group has further improved its operating efficiency and internal cost control system, readjusted hypermarket format and merchandise mix, which resulted in a significant increase in turnover and after tax net profit. Our renovated hypermarket outlets on average achieved more than 20% on same store growth. It is the intention of the Group to open more neighborhood centers in Shanghai to meet the increased consumer spending on quality food and imported premium products. Moreover, there are also opportunities to grab market share in the convenience store business in Beijing, which is an important driver for the Group's potential future growth.

To capture enormous market potential available in the PRC, the Group will continue to devote efforts on brand building and retail network expansion. Looking forwards, China's economy will still maintain robust growth and focusing on the PRC consumer market is our prime business development strategy. We believe the financial crisis should be seen as an opportunity to shine for those businesses that are well prepared. We will strengthen our capability and solidify our resources to explore new investment opportunities but within a prudent framework and will only expand to other businesses when we are confident that a reasonable return on investment can be achieved. By adopting a prudent financial policy and risk management, I am confident that we can face any challenges ahead.

The Group's healthy growth would not be possible without the diligence and efforts of our professional team of management and staff. On behalf of the Board, I would like to express my gratitude to all of our staff members for their dedication and invaluable contribution to the Group during the year. My special thanks to our shareholders, customers and other stakeholders for their continued support to the Company.

Cheung Siu Lam
Chairman and Chief Executive Officer

Hong Kong, 23 April 2009

The board of directors ("Board") of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2008.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company believes that good corporate governance practices are increasingly important for maintaining and promoting shareholder value and investor confidence.

The Company has applied the principles as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

Throughout the year under review, the Company has complied with the code provisions set out in the CG Code, save for the deviations from code provision A.2.1, which are explained in the relevant paragraphs in this Report.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the statutory and CG Code and align with the latest developments.

THE BOARD

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their terms of reference respectively.

Every director shall ensure that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

Board Composition

The Board currently comprises seven members, consisting of three executive directors, one non-executive director and three independent non-executive directors.

The list of all directors is set out under "Corporate Information" (which shall specify the posts e.g. Chairman and Vice Chairman, and chairman and member of committee), held by each director on page 2 and all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The relationships among the members of the Board are disclosed under "Biographical Details of Directors and Senior Management" on page 18.

During the year ended 31 December 2008, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through the participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr Cheung Siu Lam currently holds the offices of Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Company will continue to review the effectiveness of the Group's corporate governance structure and consider whether any changes, including the separation of the roles of Chairman and Chief Executive Officer, are necessary.

Appointment and Re-election of Directors

Each of the non-executive directors of the Company is engaged on a service contract for a term of one year. The appointment may be terminated by not less than two months' written notice.

In accordance with the Company's Articles of Association, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

Madam Lo Wan and Mr Wang Jian Sheng shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting pursuant to the Company's Articles of Association.

The Board recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular dated 28 April 2009 contains detailed information of the directors standing for re-election.

Training for Directors

There is currently no arrangement in place for providing professional briefings and training programmes to directors. Nevertheless, the directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. The Company would consider to engage external legal and other professional briefings and training programmes to directors whenever necessary.

Board Meetings

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Financial Officer and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

The Company's Articles of Association contains provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

Directors' Attendance Records

The Board met two times during the year ended 31 December 2008 for approving the final results for the year ended 31 December 2007 and interim results for the period ended 30 June 2008.

The attendance records of each director at the Board meetings during the year ended 31 December 2008 are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr Cheung Siu Lam	7/9
Mr Chan Yuk Ming	7/9
Madam Lo Wan	9/9
Mr Chan Chun Keung	3/9
Mr Wang Jian Sheng	2/9
Mr Tsang Kwok Wai	6/9
Mr Liu Hui	3/9

Model Code for Securities Transactions

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Own Code throughout the year ended 31 December 2008.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major Company matters, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has established two committees, namely, the Audit Committee and Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board Committees of the Company are established with defined written terms of reference which are posted on the Company's website and are available to shareholders upon request.

The Board also has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2008 are set out on page 67 in note 7 to the financial statements.

Remuneration Committee

The Company has established a remuneration committee in February 2008.

The Remuneration Committee comprises four members, namely Madam Lo Wan (Chairman), Mr Tsang Kwok Wai, Mr Wang Jian Sheng and Mr Chan Chun Keung, the majority of them are independent non-executive directors.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee normally meets at least once a year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters.

The Remuneration Committee held one meeting during the year ended 31 December 2008 to discuss the matter of remuneration policy for directors and senior management for the year. The proposal submitted by the Remuneration Committee was adopted and approved by the Board accordingly.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2008.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Internal Controls

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group.

HLB Hodgson Impey Cheng Consultants Limited has been engaged by the Company to issue the "Report on Internal Control Review 2008" (the "Report"). The Report covered factual findings of the Group:

a. Whether the Group's existing corporate governance policies and procedures comply with the Code on Corporate Governance Practices and its reporting requirements as established in Appendix 14 and Appendix 23 of the Main Board Listing Rules respectively;

b. Whether the internal control procedures were in place and communicated to the appropriate personnel of the Group;

c. Whether the procedures were properly implemented and followed by the Group as prescribed;

d. Whether there were weaknesses and loopholes existing or that existed in the internal control procedures of the Group; and

e. Whether there were irregularities and deviations that might have existed during the course of supervision and monitoring of implementation by the Group.

The Report was reviewed by the Audit Committee and the management. In respect of the year ended 31 December 2008, the Board considered the internal controls system effective and adequate. Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of financial statements is carried out in accordance with the generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations. No significant areas of concern which might affect the operational, financial reporting, and compliance functions of the Company were identified.

The Directors acknowledge their responsibility for the Group's internal control systems and confirm they have reviewed and are satisfied as to its effectiveness in managing risks.

Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Mr Tsang Kwok Wai (Chairman), Mr Wang Jian Sheng and Mr Chan Chun Keung (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the Chief Financial Officer or external auditors before submission to the Board.
- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee provides supervision on the internal controls system of the Group and reported to the Board on any material issues and makes recommendations to the Board.

During the year under review, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 December 2007 and interim results and interim report for the six months ended 30 June 2008, the financial reporting and compliance procedures, internal control system and risk management function and the re-appointment of the external auditors.

There is no different view taken by the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Audit Committee held two meetings during the year ended 31 December 2008 and the attendance records are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr Tsang Kwok Wai	2/2
Mr Chan Chun Keung	2/2
Mr Wang Jian Sheng	0/2

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 29.

During the year under review, the remuneration paid to the Company's auditors, is set out below:

Category of services	Fee paid/ payable HK$
Audit service	1,300,000
Non-audit service	
– Report for circular	30,500
Total	HK$1,330,500

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The general meetings of the Company provide an important channel for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Audit Committee and Remuneration Committee or, in their absence, other members of the respective committees and the Board, are available to answer questions at the shareholders' meetings.

To promote effective communication, the Company maintains a website at www.kpi.com.hk where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. Investors may write directly to the Company at its registered office or via email to the Company's website for any inquiries.

SHAREHOLDER RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings at which voting is taken on a poll are contained in the Company's Articles of Association. Details of such rights to demand a poll were included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be posted on the websites of the Company and of the Stock Exchange on the business day following the shareholders' meeting.

On behalf of the Board
Cheung Siu Lam
Chairman and Chief Executive Officer

The Group was principally engaged in the retail business in the PRC.

INDUSTRY ANALYSIS

According to the statistics published by the National Bureau of Statistics of China, the annual total retail sales of consumer goods reached approximately RMB10,848.8 billion. The par capita disposable income of urban citizens reached RMB15,000. As consumption growth is largely driven by the income growth of residents, it is believed that the retail sales growth momentum will maintain enormous in a long run.

Although the financial crisis hits various industries and exert some pressure on the growth of the retail industry in the short run, the Group believes that the effect may be temporary. Owing to the increased income effect, the consumption ability and actual expenditure incurred by PRC consumers will be further enhanced. The demand for good quality and safety products and change in consumption attitude will cast a solid impetus for a continuous growth.

FINANCIAL REVIEW

Revenue and Net Profit

The Group completed the acquisition of 20% equity interest in Hualian GMS at the end of January 2008 and acquired the trademark of Hi-24 convenience stores in Beijing during the year.

During the year under review, the Group recorded revenue amounting to approximately HK$1,777,062,000 (2007: HK$666,288,000), representing an increase of 166.7% as compared to that of the previous year. The increase in revenue is mainly due to the steady growth in China's economy, continuous improvement in operation and the excellent performance of renovated outlets. Profit for the year attributable to equity holders of the Company was HK$247,686,000 (2007: HK$6,330,000), representing an increase of 3,813% as compared to that of the previous year. Earnings per share was HK14.431 cents (2007: HK0.476 cents). Selling and distribution expenses and administrative expenses for the year represented 6.8% and 16.9% of revenue respectively, as compared to 6.2% and 18.0% of last year.

Other Revenue and Other Net Income

Other revenue and other net income of the Group in 2008 amounted to approximately HK$250,624,000, representing an increase of 122% as compared with HK$113,039,000 in 2007. This increase was primarily due to full consolidation of the financial results of Hualian GMS.

Finance Costs

The Group' finance costs for 2008 were approximately HK$11,151,000 (2007: HK$8,592,000). The increase in finance costs was mainly due to the increase in share of finance cost of Hualian GMS.

Capital Structure, Liquidity and Financial Resources

As at 31 December 2008, the Group had non-current assets of approximately HK$699,807,000. The non-current assets were mainly comprised of property, plant and equipment of approximately HK$65,203,000, investment property of approximately HK$57,954,000, available-for-sale investments of approximately HK$21,774,000, goodwill of approximately HK$377,972,000, intangible assets of approximately HK$167,431,000 and long term lease prepayment of approximately HK$8,591,000. The Group's current assets as at the same date mainly included cash and cash equivalents amounting to approximately HK$550,385,000, inventories of approximately HK$219,514,000, other receivables, deposits and prepayments amounting to approximately

HK$351,058,000. The Group's current liabilities as at the same date mainly included accounts payable of approximately HK$457,387,000, other payables, deposits received and accruals of approximately HK$370,417,000 and bank borrowings of approximately HK$169,587,000. Current ratio, defined as current assets over current liabilities, was 1.12. As at 31 December 2008, the Group's consolidated borrowings stood at approximately HK$169,587,000, all of which was Renminbi short term bank loans on fixed interest rate basis.

Contingent Liabilities

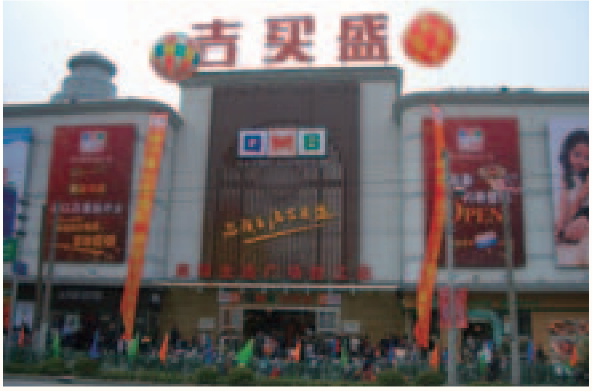
The Group did not have any material contingent liabilities as at 31 December 2008. The Group may become involved in certain legal proceedings relating to claims arising out of operations in the normal course of business. However, none of these proceedings, individually or in aggregate, is expected to have a material adverse effect on the Group's financial situation or operational results.

Details of Pledged Assets of the Group

As at 31 December 2008, the Group has assets of approximately HK$57,954,000 pledged to a bank to secure a general banking facility.

Risk Management

The activities of the Group expose it to a variety of financial risks, including foreign exchange risk, cash flow and fair value interest rate risk, credit risk, and liquidity risk.



(i) *Foreign Exchange Risk*

The Group has operations in the PRC and the majority of the Group's revenues, expenses and cashflows are denominated in Renminbi (RMB) and HK Dollars (HK$). Assets and liabilities of the Group are mostly denominated in RMB, HK$ or United States Dollars (US$). Any significant exchange rate fluctuations of foreign currencies against Renminbi may have financial impact on the Group.

(ii) *Interest Rate Risk*

The Group's consolidated statement of comprehensive income is affected by changes in interest rates due to the impact of such changes on interest income and expenses from bank balances, interest-bearing bank loans and other interest-bearing borrowings. The Group's policy is to obtain the most favourable interest rates available. As at 31 December 2008, the Group did not have interest-bearing financial assets and long-term debt obligations with floating interest rates. Accordingly, the Group has no significant interest rate risk.

(iii) *Credit Risk*

The Group has no significant concentrations of credit risk. Most of the sales transactions are settled on cash basis or by credit card payment. The carrying amount of loan and other receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial assets. The directors are of the opinion that adequate provision for uncollectible receivables has been made in the audited consolidated financial statements. The credit risk on balances of cash and cash equivalents is low as these balances are placed with reputable financial institutions.

(iv) *Liquidity Risk*

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and ability to close our market positions. The Group's objective is to maintain adequate credit lines to ensure that sufficient and flexible funding is available to the Group.

During the year under review, the Group did not use any financial instrument for hedging purpose and the Group did not have any hedging instrument outstanding for the year ended 31 December 2008.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as total interest-bearing liabilities divided by capital and reserves attributable to equity holders of the Company.

As at 31 December 2008, the debt to equity ratio was 21.7% (2007: 16.5%).

Fair Value Estimation

The carrying amounts less impairment provision of the financial assets and the carrying amounts of the financial liabilities are assumed to approximate their fair values.

Human Resources Management

As at 31 December 2008, the Group employed approximately 3,500 full time staff in Mainland China and Hong Kong. Total staff costs (including directors' remuneration) for the year were approximately HK$129,286,000, in which approximately HK$14,761,000 were share-based payment expenses absorbed for the year. The Group continued to recruit high calibre people and provided continuing education and training for employees to help upgrade their skills and knowledge as well as develop team spirit on an on-going basis. Competitive remuneration packages are structured to be commensurate with individual responsibilities, job duties, experience, performance and prevailing industry practice, and are regularly reviewed by the management. In addition, allowances and performance bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance and medical coverage as well as share option scheme.

Material Acquisitions and Disposals

On 28 November 2007, K.P.I. (BVI) Retail Management Company Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement to purchase the entire issued share capital of Bestjoy International Limited, which is the registered owner of a 20% equity interest in Hualian GMS. The acquisition was completed on 30 January 2008. Further details of the acquisition were set out in the Company's circular dated 31 December 2007 to its shareholders in connection with the acquisition. The Group has also been accelerating its investment in the PRC. On 30 June 2008, the Group acquired an investment property situated at 88 North Xi San Huan Road, Haidian District, Beijing, the PRC, at a consideration of approximately RMB50,535,000. The property will not only provide the Group with a stable source of rental income, but also facilitate the Group's establishment of a retail network in Beijing.

BUSINESS REVIEW

As a major retail operator in the PRC, the Group has been investing resources to enhance its market position and improve competitiveness and profitability. The Group operates a hypermarket chains, Hualian GMS mainly in Shanghai and nearby provinces, and a convenience store chain Hi-24 in Beijing. Currently the Group operates 17 hypermarkets and over 130 convenience stores with total turnover of more than RMB1.6 billion. The capital expenditure for our hypermarket chain was about RMB18 million, mainly for store renovation.

In 2008, the Group made a remarkable progress in the growth of its retail business. The increase in total turnover was mainly attributed to same store sales growth. The increase in same store sales growth was attributed to the continual enhancement of merchandise category management, re-design of store format, competitive pricing strategy and continuous improvement in service quality, resulting in increases in the number of transactions and average transaction amount per customer. The increase in rental income was mainly attributed to the effective store space management, thereby leading to an increase in lease-out area and bringing in more prestigious brand name retail operators.

To further improve the Group's regional advantages, the management has adjusted our business development strategy. There are economic differences among provinces in the PRC and our early expansion in the Northeastern region turned out to be not very successful. In this regard, more resources will be allocated to increase our concentration in Shanghai city and progressively stretch out our arms to other nearby provinces to obtain district scale. During the year under review, one hypermarket outlet in Shanghai was closed. One outlet in Changchun will be closed in 2009 and one outlet in Shanghai was scheduled to be opened in April 2009. Centralized development in focused regions facilitates economies of scale and hence enhances profitability. In order to cope with increasingly complex consumer demand, the Group intends to renovate two to three stores per annum to build up an image of a distinguished retail chain via enhanced service and store format. Currently our hypermarkets operate in two different models, namely super store and neighborhood centre, both stressing a personal touch with contemporary ambience for shoppers. The neighborhood centre puts more emphasis on fresh food and premium imported products. It is our intention to open more neighborhood centers in Shanghai to deal with consumers' ever increasing demand for quality goods.

The year 2009 will be an opportunity rather than a threat for a well-prepared company such as the Group. We will enlarge our outlet penetration in Beijing by opening up to 40 convenience store outlets this year to further strengthen our leading position as a convenience store market leader. Capital investment in each convenience store outlet, which is less than RMB200,000 per store, is provided from internal funding. Nevertheless the Group will be cautious in its expansion due to dramatic deterioration in the global economic environment and the management will closely monitor the market situation and look for any opportunity that may arise.

FUTURE OUTLOOK AND PROSPECTS

Although the current financial crisis has a negative impact on the global business environment, the PRC is still one of the fastest growing countries in the world and will continue to grow in 2009. The Group is optimistic about the long term prospect of the retail industry. The Group will proactively enhance its cost effectiveness as usual and request all our subsidiaries to fully comply with the operating budgets approved by the Board in order to reinforce our competitive strengths. Due to successful efforts, the Group has laid a solid foundation in its retail business and the coming year will be a year full of opportunities for mergers and acquisitions. The Group will keep on exploring further investment projects with good returns to increase our market value.

EXECUTIVE DIRECTORS

MR CHEUNG SIU LAM, aged 50, is a co-founder and Chairman of the Group. Before establishing the Group, Mr Cheung worked for Beijing Machinery Import & Export Company for many years. Mr Cheung has extensive experience in trading and retailing business in PRC. Mr Cheung is responsible for the overall strategic planning and corporate development of the Group. Mr Cheung is the spouse of Madam Lo Wan.

MR CHAN YUK MING, aged 50, is the Vice-Chairman of the Group. Mr Chan graduated from the Hangzhou Institute of Business, following which he worked in the accounting department of the Beijing Commercial Bureau, under the supervision of the Ministry of Commerce. He joined the Group in 1985 and is responsible for business development of the Group. He is the vice chairman of the board of Hualian GMS Shopping Center Company Limited.

MADAM LO WAN, aged 47, joined the Group in 1989. Prior to joining the Group, she worked for a PRC trading Company. Madam Lo is responsible for the investment in marketable securities. Madam Lo is also the chairman of the Remuneration Committee of the Company.

Madam Lo is the spouse of Mr Cheung Siu Lam, the Chairman of the Group.

NON-EXECUTIVE DIRECTOR

MR LIU HUI, aged 52, is graduated from Beijing University of International Business and Economics and Westminster University of UK. Mr. Liu has over 26 years of experience in advising and investing in the People's Republic of China, especially in the retail and consumer sectors. Mr. Liu co-founded the US$165 million China Retail Fund, LDC with American International Group, Inc in 1996. He is currently an independent non-executive director of China-Hong Kong Photo Products Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited) and the chairman and non-executive director of ARC Capital Holdings Limited (a closed-end fund listed on the AIM market of the London Stock Exchange). Mr. Liu is also a director of Hualian GMS Shopping Center Co., Ltd. Mr Liu joined the Group in October 2007.

Save and except that Mr. Liu is nominated by ARC Capital Holdings Limited (which is a substantial Shareholder) as non-executive Director, Mr. Liu does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR WANG JIAN SHENG, aged 56, graduated from Luoyang Industrial Institution (currently known as Henan Technology University) with a degree in engineering. He has been involved in industrial businesses for more than 23 years and has worked in the Project Department of China Everbright Industrial Company for four years. Mr Wang was the chairman of Strong Petrochemical Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited). Mr Wang joined the Group in 1996. Mr Wang is also a member of the Audit Committee and the Remuneration Committee of the Company.

Mr Wang does not have any relationship with any other Directors, senior management, substantial shareholders, or controlling shareholders of the Company.

MR CHAN CHUN KEUNG, aged 58, joined the Group in November, 2000. Mr Chan has extensive experience in trading and investment in PRC and is currently a committee member of the Chinese People's Political Consultative Conference of Fujian Province, PRC, the vice-chairman of the Fukien Chamber of Commerce in Hong Kong and a committee member of the Foreign Investment Enterprises Association in PRC. Mr Chan is also a member of the Audit Committee and the Remuneration Committee of the Company. Mr Chan does not have any relationship with any other Directors, senior management, substantial shareholders, or controlling shareholders of the Company.

MR TSANG KWOK WAI, aged 39, joined the Group in May 2007. He is a fellow member of the Hong Kong Institute of Certified Public Accountants; The Association of Chartered Certified Accountants; and The Taxation Institute of Hong Kong. Mr Tsang is also an independent non-executive director of China Golden Development Holdings Limited and ABC Communications (Holdings) Limited (both companies listed on The Stock Exchange of Hong Kong Limited). Mr Tsang has over 16 years of experience in accounting and finance. At present, Mr Tsang runs his own firm and practices public accounting. He is also the chairman of the Audit Committee and a member of the Remuneration Committee of the Company.

Mr Tsang does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

SENIOR MANAGEMENT

MR TAO YE, aged 36, is the general manager of the Group. He joined the Group in January, 2004. Mr Tao graduated in Peking University in 1995 and obtained a bachelor degree in Science and a certificate in Law. Mr Tao further obtained a master degree in Science and Business Administration from Peking University in 1998 and 2001 respectively. Mr Tao is also a director of Hualian GMS Shopping Center Company Limited and Beijing K.P.I. Hi-24 Convenience Stores Company Limited. He has extensive experience in strategic planning, business administration and corporate management.

MR CHUNG CHIN KEUNG, aged 41, is the company secretary and financial controller of the Group and is responsible for the overall financial and accounting affairs. He joined the Group in October, 2004. Mr Chung holds a bachelor degree of Business Administration from the Hong Kong Baptist University and a master degree in Business Administration from Manchester Business School. He has 18 years experience in finance, accounting and management. Before joining the Group, Mr Chung worked for various listed companies in Hong Kong and overseas and was a company secretary for a listed company in Hong Kong. Mr Chung is also an independent non-executive director of China Primary Resources Holdings Limited (a company listed on the Growth Enterprise Market (GEM) of The Stock Exchange of Hong Kong Limited). Mr Chung is a fellow member of The Association of Chartered Certified Accountants, a fellow member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Institute of Financial Consultants.

Mr LIN KENG LI, aged 44, is the general manager of the retail business of the Group and joined us in November 2007. Mr Lin graduated from Fu Jen Catholic University in Taiwan and has over 21 years of experience in retail standardization management. Mr Lin once worked in Taiwan Family Mart Co. Ltd., Beijing Wumart Convenience Stores Company Limited and the Commodity Centre of Beijing Wumart Group. Mr Lin is also a director of Hualian GMS Shopping Center Company Limited and Beijing K.P.I. Hi-24 Convenience Stores Company Limited.

MADAM CHIN TUNG MUI, aged 47, graduated from Beijing Institute of Business with a degree in economics. Madam Chin also holds a master degree in Business Administration from the Open University of Hong Kong. She joined the Group in 1990 and is the Deputy General Manager of K.P.A. Company Limited. Madam Chin is responsible for business development of the Group.

The directors present herewith their report and the audited financial statements of the Company and the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries, associates and jointly controlled entity are set out in notes 16, 17 and 18 to the financial statements respectively.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2008 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 34. The directors do not recommend the payment of any dividend in this year (2007: NIL).

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 36 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT, LEASE PREMIUM FOR LAND AND INVESTMENT PROPERTY

Details of movements in property, plant and equipment, lease premium for land of the Company and the Group and the investment property of the Group are set out in notes 12 to 14 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and share options of the Company during the year, together with the reasons therefore, are set out in notes 34 and 35 to the financial statements, respectively.

DISTRIBUTABLE RESERVES

Profit for the year attributable to equity holders of the Company of HK$247,686,000 (2007: HK$6,330,000) has been transferred to reserves. As at 31 December 2008, the Company's reserve available for distribution to shareholders amounted to approximately HK$65,970,000 (2007: NIL) in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

The Group is principally involved in retail business. The five largest customers and the five largest suppliers of the Group accounted for less than 30% of the Group's turnover and purchases respectively during the year.

As far as the directors are aware, neither the directors, their associates nor any shareholder of the Company (which, to the best of knowledge of the directors, owns more than 5% of the Company's share capital) had any beneficial interest in these major customers and suppliers.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive directors

Cheung Siu Lam *(Chairman)*
Chan Yuk Ming *(Vice-chairman)*
Lo Wan

Non-executive director

Liu Hui

Independent non-executive directors

Wang Jian Sheng
Chan Chun Keung
Tsang Kwok Wai

According to Article 105(A) of the Company's Articles of Association, Mr Wang Jian Sheng and Madam Lo Wan shall retire by rotation at the Annual General Meeting, and being eligible, will offer themselves for re-election at the Annual General Meeting. The directors of the Company, including the independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

DIRECTORS' SERVICE CONTRACTS

The non-executive director, Mr Liu Hui and the independent non-executive director, Mr Tsang Kwok Wai, have entered into a service contract with the Company for one year commencing on 8 October 2007 and 28 May 2007 respectively and is subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Articles of Association of the Company.

Other independent non-executive directors, namely Mr Wang Jian Sheng and Mr Chan Chun Keung entered into service contracts with the Company respectively for a term of one year commencing on 9 September 2004 and are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Articles of Association of the Company.

Either party may terminate the contract by giving not less than two months' notice in writing or payment of remuneration in lieu of such notice or the unexpired part of such period. Their remuneration is determined by the board of directors on the anniversary of the dates of their appointments.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 December 2008, 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 Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Companies ("Model Code"), were as follows:

Long positions in shares and underlying shares of the Company

Name of Director	Capacity	Number of ordinary shares held	Underlying shares interested *(Note 1)*	Aggregate long position in shares and underlying shares to issued share capital
Cheung Siu Lam	Beneficial owner of 460,044,240 ordinary shares and 10,000,000 underlying shares, family interest of 100,388,000 ordinary shares and 10,000,000 underlying shares *(Note 2)* and interest in controlled corporation of 86,400,000 ordinary shares *(Note 3)*	646,832,240	20,000,000	38.63%
Lo Wan	Beneficial owner of 100,388,000 ordinary shares and 10,000,000 underlying shares, family interest of 546,444,240 ordinary shares and 10,000,000 underlying shares *(Note 4)*	646,832,240	20,000,000	38.63%
Chan Yuk Ming	Beneficial owner	10,000,000	10,000,000	1.15%

Notes:

1. The number of shares represents the shares in which the directors are deemed to be interested as a result of holding share options.

2. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 100,388,000 ordinary shares and 10,000,000 underlying shares held by Lo Wan.

3. Arbalice Holdings Limited is beneficially owned as to 60% by Cheung Siu Lam, 27.5% by Lo Wan and 12.5% by Zhang Wei. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 86,400,000 shares held by Arbalice Holdings Limited.

4. By virtue of the SFO, Lo Wan is deemed to be interested in 546,444,240 ordinary shares including 460,044,240 shares held by Cheung Siu Lam as a beneficial owner and 86,400,000 shares held by Cheung Siu Lam through his interest in Arbalice Holdings Limited and 10,000,000 underlying shares held by Cheung Siu Lam.

Long positions in shares and underlying shares of associated corporation

Name of Director	Name of associated corporation	Approximate percentage
Cheung Siu Lam	K.P.I. Convenience Retail Company Limited	28%

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 Part XV of the SFO as at 31 December 2008.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the headings "Directors' interests in share capital" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

INTERESTS IN SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the following companies and person were 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 Part XV of the SFO:

Long positions in shares and underlying shares of the Company

Name	Capacity	Number of ordinary shares held	Underlying shares interested	Aggregate long position in shares and underlying shares to issued share capital
Cheung Siu Lam	Beneficial owner of 460,044,240 ordinary shares and 10,000,000 underlying shares, family interest of 100,388,000 ordinary shares and 10,000,000 underlying shares and interest in controlled corporation of 86,400,000 ordinary shares	646,832,240	20,000,000	38.63%
Lo Wan	Beneficial owner of 100,388,000 ordinary shares and 10,000,000 underlying shares, family interest of 546,444,240 ordinary shares and 10,000,000 underlying shares	646,832,240	20,000,000	38.63%

Name	Capacity	Number of ordinary shares held	Underlying shares interested	Aggregate long position in shares and underlying shares to issued share capital
Arbalice Holdings Limited *(Note 1)*	Beneficial owner	86,400,000	–	5.01%
ARC Capital Holdings Limited *(Note 2)*	Beneficial owner	290,625,000	–	16.84%
Keywise Capital Management (HK) Limited	Investment Manager	129,802,000	–	7.52%
Keywise Greater China Opportunities Master Fund	Beneficial Owner	129,802,000	–	7.52%

Notes:

1. The above interest in the name of Arbalice Holdings Limited was also disclosed as interests of Cheung Siu Lam in the sections of "Directors' interests in share capital" and "Interests in substantial shareholders".

2. ARC Capital Holdings Limited is a closed-end fund listed on the AIM Market of the London Stock Exchange principally engaged in the making and holding investments in the retail, consumer products and service sections of Greater China and other countries in Asia.

Save as disclosed above, no person had registered an interest or a short position in the shares and underlying shares or debentures of the Company that was required to be recorded under Section 336 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company adopted a new share option scheme on 7 June 2004 (the "New Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

A summary of the New Scheme of the Company is as follows:

Purpose	To provide incentives and rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest (the "Invested Entity").
Participants	(i) any employee (whether full-time or part-time), executive directors, non-executive directors and independent non-executive directors of the Company, any of its subsidiaries or any Invested Entity; (ii) any supplier of goods or services to any member of the Group or any Invested Entity, any customer of the Group or any Invested Entity; any person or entity that provides technical, financial and legal support to the Group or any Invested Entity; and (iii) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.
Total number of ordinary shares available for issue under the New Scheme and the percentage of the issued share capital that it represents as at the date of the annual report	172,590,233 ordinary shares and 10% of the existing issued share capital.
Maximum entitlement of each participant	Where any grant or further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such grant or further grant representing in aggregate over 1% of the total number of shares in issue, such grant or further grant must be separately approved by the shareholders in a general meeting.

	Where any grant or further grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including exercised, cancelled and outstanding options) to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, such grant or further grant of options must be approved by the shareholders in a general meeting.
Period within which the securities must be taken up under an option	An option may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall end in any event not later than 10 years from the date of offer of the grant of options subject to the provisions for early termination set out in the New Scheme.
Minimum period for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.
Amount payable on acceptance of the option and the period within which such payment must be made	The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1.00 being payable by the grantee.
Basis of determining the exercise price	Determined by the directors but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant of options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant of options; and (iii) the nominal value of the Company's shares.
The remaining life of the New Scheme	The New Scheme remains in force until 6 June 2014.

During the year under review, no share options were granted. Details of the share options granted under the New Scheme are as follows:

As at 31 December 2008, the executive directors, non-executive directors and employees of the Group have the following interests under the New Scheme.

Director	Date of offer	Exercise price	Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2008	Exercise period	Closing price of the securities immediately before the date on which the options were offered
Cheung Siu Lam	04.10.07	0.479	10,000,000	–	–	–	10,000,000	04.10.07 – 03.10.17	0.460
Lo Wan	04.10.07	0.479	10,000,000	–	–	–	10,000,000	04.10.07 – 03.10.17	0.460
Chan Yuk Ming	04.10.07	0.479	10,000,000	–	–	–	10,000,000	04.10.07 – 03.10.17	0.460
Employees in aggregate	10.01.05	0.126	19,100,000	–	–	–	19,100,000	10.01.05 – 06.06.14	0.126
	04.10.07	0.479	38,500,000	–	–	–	38,500,000	04.10.07 – 03.10.17	0.460

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

The Company has not redeemed any of its listed securities during the year ended 31 December 2008. Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2008.

RETIREMENT SCHEMES

The Group also operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, and participates in various defined contribution retirement plans organised by the relevant authorities for its employees in the PRC.

CORPORATE GOVERNANCE

Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the directors, the directors confirm that the Company has maintained the amount of public float as required under the Listing Rules during the year.

AUDITOR

The financial statements have been audited by CCIF CPA Limited, Certified Public Accountants. A resolution for their re-appointment as the Company's auditor for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Cheung Siu Lam
Chairman and Chief Executive Officer

Hong Kong, 23 April 2009

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF K. P. I. COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of K.P.I. Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 31 to 111, which comprise the consolidated and Company statements of financial position as at 31 December 2008, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 23 April 2009

Kwok Cheuk Yuen
Practising Certificate Number P02412

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Turnover	3	**1,805,881**	775,012
Revenue	3	**1,777,062**	666,288
Cost of sales		**(1,599,691)**	(600,799)
Gross profit		**177,371**	65,489
Other revenue and other net income	3	**250,624**	113,039
Selling and distribution expenses		**(120,371)**	(41,573)
Administrative expenses		**(299,670)**	(120,130)
Change in fair value of investment property		**812**	–
Gain on remeasurement of interest in jointly controlled entity to fair value		**261,565**	–
Loss on disposal of an associate	17	**(459)**	–
Finance costs	6	**(11,151)**	(8,592)
Profit before taxation	5	**258,721**	8,233
Income tax	8(a)	**(2,847)**	(1,916)
Profit for the year		**255,874**	6,317
Other comprehensive income:			
Exchange differences on translating foreign operations		**5,961**	1,669
Change in fair value of available-for-sale financial assets		**(7,043)**	–
Other comprehensive income for the year		**(1,082)**	1,669
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**254,792**	7,986
Profit attributable to:			
Owners of the parent		**247,686**	6,330
Non-controlling interest		**8,188**	(13)
		255,874	6,317
Total comprehensive income attributable to:			
Owners of the parent		**246,604**	7,999
Non-controlling interest		**8,188**	(13)
		254,792	7,986
Earnings per share (in currency unit)	11		
– Basic		**HK14.431 cents**	HK0.476 cents
– Diluted		**HK14.431 cents**	HK0.473 cents

The notes on pages 38 to 111 form an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	*12*	**65,203**	27,866
Land lease premium	*13*	**882**	905
Investment property	*14*	**57,954**	–
Intangible assets	*15*	**167,431**	55,664
Interests in associates	*17*	**–**	2,112
Goodwill	*19*	**377,972**	13,493
Amount due from a joint venture partner	*20*	**–**	2,928
Long term lease prepayment	*25*	**8,591**	3,668
Available-for-sale investments	*21*	**21,774**	3,534
		699,807	110,170
Current assets			
Land lease premium	*13*	**23**	23
Accounts receivable	*22*	**261**	–
Financial assets at fair value through profit or loss	*23*	**–**	29,773
Inventories	*24*	**219,514**	68,774
Other receivables, deposits and prepayments	*25*	**351,058**	182,780
Loan and interest receivables	*26*	**–**	64,350
Tax recoverable	*8(b)*	**567**	567
Pledged deposits	*28*	**339**	6,372
Cash and cash equivalents	*29*	**550,385**	252,288
		1,122,147	604,927
Current liabilities			
Tax payables	*8(b)*	**825**	1,236
Accounts payable	*30*	**457,387**	167,860
Other payables, deposits received and accruals	*31*	**370,417**	94,439
Short term bank loans – unsecured	*32*	**169,587**	63,830
		998,216	327,365
Net current assets		**123,931**	277,562
Total assets less current liabilities		**823,738**	387,732
Non-current liabilities			
Deferred tax liabilities	*33*	**41,951**	–
NET ASSETS		**781,787**	387,732

Consolidated Statement of Financial Position

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	*34*	**172,590**	159,590
Share premium	*36(i)*	**287,362**	244,522
Convertible note reserve	*36(ii)*	**–**	–
Statutory public welfare reserve	*36(iii)*	**–**	–
Share based compensation reserve	*36(iv)*	**16,914**	2,153
Exchange fluctuation reserve	*36(v)*	**11,009**	5,048
Fair value reserve	*36(vi)*	**(7,043)**	–
Statutory surplus reserve	*36(vii)*	**747**	1,393
Retained earnings/(accumulated losses)		**212,561**	(34,684)
		694,140	378,022
Non-controlling interest		**87,647**	9,710
SHAREHOLDERS' FUNDS		**781,787**	387,732
SHAREHOLDERS' FUNDS PER SHARE		**HK45.55 cents**	HK28.98 cents

Approved and authorised for issue by the board of directors on 23 April 2009.

On behalf of the board

Cheung Siu Lam
Director

Chan Yuk Ming
Director

The notes on pages 38 to 111 form an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	*12*	**926**	1,233
Interests in subsidiaries	*16*	**33,519**	13,838
		34,445	15,071
Current assets			
Other receivables, deposits and prepayments	*25*	**1,847**	1,097
Amounts due from subsidiaries	*27*	**533,544**	288,049
Cash and cash equivalents	*29*	**7,347**	37,752
		542,738	326,898
Current liabilities			
Other payables, deposits received and accruals	*31*	**356**	94
Amounts due to subsidiaries	*27*	**14,741**	13,992
		15,097	14,086
Net current assets		**527,641**	312,812
Total assets less current liabilities		**562,086**	327,883
NET ASSETS		**562,086**	327,883
Capital and reserves			
Share capital	*34*	**172,590**	159,590
Share premium	*36(i)*	**287,362**	244,522
Convertible note reserve	*36(ii)*	**–**	–
Share based compensation reserve	*36(iv)*	**16,914**	2,153
Retained earnings/(accumulated losses)		**85,220**	(78,382)
		562,086	327,883
SHAREHOLDERS' FUNDS		**562,086**	327,883
SHAREHOLDERS' FUNDS PER SHARE		**HK32.75 cents**	HK24.51 cents

Approved and authorised for issue by the board of directors on 23 April 2009.

On behalf of the board

Cheung Siu Lam
Director

Chan Yuk Ming
Director

The notes on pages 38 to 111 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

						Other comprehensive incomes						
	Share capital	Share premium	Convertible note reserve	Statutory public welfare reserve	Share-based compensation reserve	Exchange fluctuation reserve	Fair value reserve	Statutory surplus reserve	(Accumulated losses)/ retained earnings	Attributable to equity holders of the Company	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007	101,588	106,879	3,975	173	4,459	3,379	–	205	(39,999)	180,659	9,723	190,382
Placing of new shares	13,000	36,400	–	–	–	–	–	–	–	49,400	–	49,400
Placing of new shares	8,600	26,230	–	–	–	–	–	–	–	34,830	–	34,830
Issue of new shares upon exercise of share options	7,340	6,326	–	–	(3,314)	–	–	–	–	10,352	–	10,352
Forfeiture of share options	–	–	–	–	(334)	–	–	–	–	(334)	–	(334)
Conversion of convertible note	29,062	69,505	(3,975)	–	–	–	–	–	–	94,592	–	94,592
Share issuing expenses	–	(818)	–	–	–	–	–	–	–	(818)	–	(818)
Exchange adjustment	–	–	–	–	–	1,669	–	–	–	1,669	–	1,669
Employee share option benefits	–	–	–	–	1,342	–	–	–	–	1,342	–	1,342
Total comprehensive income attributable to shareholders	–	–	–	–	–	–	–	–	6,330	6,330	(13)	6,317
Transfer	–	–	–	(173)	–	–	–	1,188	(1,015)	–	–	–
At 31 December 2007 and 1 January 2008	159,590	244,522	–	–	2,153	5,048	–	1,393	(34,684)	378,022	9,710	387,732
Issue of new shares	13,000	42,840	–	–	–	–	–	–	–	55,840	–	55,840
Acquisition of a subsidiary	–	–	–	–	–	–	–	(1,087)	–	(1,087)	69,749	68,662
Employee share option benefits	–	–	–	–	14,761	–	–	–	–	14,761	–	14,761
Exchange adjustment	–	–	–	–	–	5,961	–	–	–	5,961	–	5,961
Fair value adjustment for available-for-sale financial assets	–	–	–	–	–	–	(7,043)	–	–	(7,043)	–	(7,043)
Total comprehensive income attributable to shareholders	–	–	–	–	–	–	–	–	247,686	247,686	8,188	255,874
Transfer	–	–	–	–	–	–	–	441	(441)	–	–	–
At 31 December 2008	**172,590**	**287,362**	**–**	**–**	**16,914**	**11,009**	**(7,043)**	**747**	**212,561**	**694,140**	**87,647**	**781,787**

The notes on pages 38 to 111 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Operating activities			
Profit before taxation		**258,721**	8,233
Adjustments for			
Depreciation of property, plant and equipment		**28,723**	15,542
Loss on disposal of property, plant and equipment		**9,355**	502
Interest income		**(8,875)**	(8,296)
Finance costs		**11,151**	8,592
Forfeiture of share options		**–**	(334)
Share-based payment expenses		**14,761**	1,342
Dividend income from unlisted investment		**(304)**	(206)
Dividend income from listed investments		**(328)**	–
Unrealised loss on changes in fair values of financial assets		**9,881**	3,175
Gain on remeasurement of interest in jointly controlled entity to fair value		**(261,565)**	–
Write-back of other payables		**–**	(3,493)
Loss on disposal of an associate		**459**	–
Gain on disposal of share options		**–**	(1,686)
Amortisation of intangible assets		**6,365**	2,352
Amortisation of land lease premium		**23**	23
Changes in fair value of investment property		**(812)**	–
Operating profit before changes in working capital		**67,555**	25,746
Decrease in amount due from a joint venture partner		**2,928**	–
Increase in inventories		**(16,723)**	(10,782)
Increase in accounts receivable		**(261)**	–
Increase in other receivables, deposits and prepayments		**(18,962)**	(63,923)
Increase in accounts payable		**136,091**	25,724
Increase in other payables, deposits received and accruals		**64,946**	39,378
Cash generated from operations		**235,574**	16,143
Taxation paid			
– Hong Kong profits tax		**–**	(989)
– PRC enterprise income tax		**(5,070)**	(348)
Net cash inflow from operating activities		**230,504**	14,806

Consolidated Statement of Cash Flows

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Investing activities			
Purchase of investment property		**(57,142)**	–
Purchase of property, plant and equipment		**(35,020)**	(4,901)
Acquisition of a subsidiary, net of cash acquired	*37*	**255,999**	–
Derecognition of jointly controlled entity		**(108,660)**	–
Net proceeds from trading of securities		**(5,391)**	(11,724)
Proceeds on disposal of an associate		**1,653**	–
Interest received		**8,875**	5,605
Dividend received from unlisted investment		**304**	206
Dividend received from listed investments		**328**	–
Proceeds on disposal of property, plant and equipment		**208**	15,974
Net cash inflow from investing activities		**61,154**	5,160
Financing activities			
Proceeds from issue of new shares		**–**	84,230
Proceeds from issue of new shares upon exercise of share options		**–**	10,352
Share issuing expenses		**–**	(818)
Finance cost		**(11,151)**	(5,521)
Proceeds from new bank loans		**65,005**	85,106
Repayment of bank loans		**(63,830)**	(102,128)
Net cash (outflow)/inflow from financing activities		**(9,976)**	71,221
Increase in cash and cash equivalents		**281,682**	91,187
Effect of foreign exchange rate changes		**10,382**	2,039
Cash and cash equivalents at beginning of the year		**258,660**	165,434
Cash and cash equivalents at end of the year	*29*	**550,724**	258,660

The notes on pages 38 to 111 form an integral part of these financial statements.

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Suite 5606, 56th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

2. PRINCIPAL ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

b) Basis of preparation

The consolidated financial statements have been prepared in accordance with HKFRSs and under the historical cost convention, except for the available-for-sale investments, financial assets at fair value through profit or loss and investment property that have been measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except where otherwise indicated.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

b) Basis of preparation *(continued)*

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 42.

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

Adoption of new/revised HKFRSs

In the current year, the Group has, where applicable, applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented except for the amendments to HKAS 39 & HKFRS 7.

The amendments to HKAS 39 and HKFRS 7 permit reclassification of non-derivative securities (other than those designated as fair value through profit or loss upon initial recognition) out of the trading category in rare circumstances. The amendments also permit reclassification of non-derivative securities (other than those designated as fair value through profit or loss upon initial recognition) which would have met the definition of loans and receivables out of the trading category (i.e. out of the fair value through profit or loss category) if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity. The reclassified assets would be carried at their fair value on the date of reclassification, which will become their new costs or amortised costs, as applicable. The amendments also permit reclassification of financial assets from the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity. The amendments to HKAS 39 and HKFRS 7 are effective from 1 July 2008 and they can only be applied prospectively from that date. The adoption of the amendments to HKAS 39 and HKFRS 7 resulted in reclassification of "Financial assets at fair value through profit or loss" in current assets to "Available-for-sale investments" in non-current assets. Such reclassification was not previously allowed under HKAS 39. The fair value loss on remeasurement of such "Available-for-sale investments" at the statement of financial position date of HK$7,043,000 is recognised directly in equity. In prior years, the gain or loss on remeasurement was included in the statement of comprehensive income. Details of the financial impact are set out in note 21.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

b) Basis of preparation *(continued)*

Early adoption of new/revised HKFRSs

For the year 2008, the Group early adopted certain new/revised HKFRSs issued up to 31 December 2008 which were pertinent to its operations where early adoption was permitted. The applicable HKFRSs are set out below:

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
Amendments to HKFRS 1 and HKAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

HKAS 1 (Revised) affects certain disclosures of the financial statements. Under the revised standard, the Profit and Loss Account is renamed as the "Statement of Comprehensive Income", the Balance Sheet is renamed as the "Statement of Financial Position" and the Cash Flow Statement is renamed as the "Statement of Cash flows" and "Minority interests" is renamed as "Non-controlling Interest". All income and expenses arising from transactions with non-owners (i.e. the non-owner movements of equity) are presented under the "Statement of Comprehensive Income", and the total carried to the "Statement of Changes in Equity", while the owner changes in equity are presented in the "Statement of Changes in Equity".

HKFRS 3 (Revised) continues to apply acquisition method to business combinations, with a number of major changes: All payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as liabilities subsequently remeasured through the statement of comprehensive income (rather than by adjusting goodwill). All acquisition-related costs will no longer be capitalised as part of the costs of the acquisition but will be expensed immediately. HKAS 27 (Revised) specifies the accounting treatment when control is lost – any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. HKFRS 3 (Revised) requires prospective application and HKAS 27 (Revised) should be applied at the same time. The changes to HKAS 27 (Revised) require retrospective applications with certain exceptions (accounting for loss of control of a subsidiary should be applied prospectively).

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

b) Basis of preparation *(continued)*

Early adoption of new/revised HKFRSs (continued)

Gain on remeasurement of previously held 40% equity interest in a jointly controlled entity to fair value of HK$262 million is recognised in the statement of comprehensive income when the Group acquire the entire equity interest of a company which held 20% equity interest in the jointly controlled entity and the jointly controlled entity became a subsidiary of the Group.

The amendments to HKFRS 1 and HKAS 27 require all dividends be presented as income in the separate financial statements of the investor (prior to the amendments, the investor recognises income from the investment only to the extent that the investor receives distributions from retained earnings of the investee arising after the date of acquisition, and distributions received in excess of such profits are regarded as recovery of investment and are recognised as a reduction of the cost of the investment). The amendments to HKFRS 1 and HKAS 27 require prospective application. The adoption of the amendments to HKFRS 1 and HKAS 27 did not have any financial impact to the Company as the Company did not receive distributions from subsidiaries that are in excess of their retained earnings arising after the date of acquisition in 2008.

Improvements to HKFRSs

In October 2008, the HKICPA published several improvements to HKFRSs which were based on the annual improvements project of IASB. Since October 2008, the Group early adopted all such amendments which were pertinent to its operations where early adoption was permitted. The applicable HKFRSs are set out below:

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

b) Basis of preparation *(continued)*

Improvements to HKFRSs (continued)

HKAS 1: Presentation of Financial Statements

Assets and liabilities classified as available-for-sales investments in accordance with HKAS 39: Financial Instruments-Recognition and Measurement are not automatically classified as current in the consolidated statement of financial position. The Group amended its accounting policy accordingly and classified the financial assets and liabilities in accordance with management's intention of the period of realisation. The application of the amendment requires retrospective application.

HKAS 38: Intangible Assets

Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. Retrospective application is required. The adoption of this amendment did not have any financial impact to the Group as the Group's accounting policy already complies with this amendment.

HKAS 39: Financial Instruments-Recognition and Measurement

This amendment clarifies that it is possible for a derivative to move into or out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in a cash flow or net investment hedge. The amendment should be applied as of the date and in the manner the Group applied the 2005 amendment (fair value option) to HKAS 39 (i.e. 1 January 2005). The adoption of this amendment did not have financial impact to the Group as no such derivatives were held by the Group in 2008 or prior years.

All relevant changes in accounting policies and disclosures have been made in accordance with the provisions of the respective standards.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

b) Basis of preparation *(continued)*

New/revised HKFRSs not adopted

The Group has not early applied the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2008.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[3]
HKFRS 7 (Amendment)	Improving Disclosure about Financial Instruments[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[6]

1 *Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009*
2 *Effective for annual periods beginning on or after 1 January 2009*
3 *Effective for annual periods beginning on or after 1 July 2009*
4 *Effective for annual periods beginning on or after 1 July 2008*
5 *Effective for annual periods beginning on or after 1 October 2008*
6 *Effective for annual periods beginning on or after 30 June 2009*

The Company's directors anticipate that the application of the above new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

c) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All material inter-company transactions and balances within the Group are eliminated on consolidation.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

c) Consolidation *(continued)*

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated statement of comprehensive income.

Non-controlling interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

d) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position with equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss for the year between non-controlling interests and the equity shareholders of the Company.

Where losses applicable to the non-controlling holder exceed the non-controlling's interest in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling holder, are charged against the Group's interest except to the extent that the non-controlling holder has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the non-controlling holder's share of losses previously absorbed by the Group has been recovered.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

d) Subsidiaries *(continued)*

Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note 2(l) depending on the nature of the liability.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less any impairment losses *(see note 2(j))*, unless the investment is classified as held for sale.

e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is classified as held for sale. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investments in associates recognised for the year *(see notes 2(g) and (j))*.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal and constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses *(see note 2(j))*, unless it is classified as held for sale.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

f) Jointly controlled entity

A jointly-controlled entity is an entity through which the Group and another party or parties undertake an economic activity which is subject to joint control by a contractual agreement. The Group reports its interest in jointly-controlled entity using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses of jointly-controlled entity are combined with the equivalent items in the consolidated financial statements on a line-by-line basis. Where the Group transacts with its jointly-controlled entity, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly-controlled entity except where unrealised losses provide evidence of an impairment of the assets transferred, where in which case they are recognised immediately in profit or loss.

g) Goodwill

Goodwill represents the excess of the cost of an acquisition (including contingent consideration which should be measured at fair value at the acquisition date) over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment *(note 2(j))*. In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

h) Intangible assets

Intangible assets with finite useful lives acquired by the Group are stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses *(see note 2(j))*. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

h) Intangible assets *(continued)*

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The intangible assets in respect of trademarks with finite useful lives are amortised from the date they are available for use and their estimated useful lives of 25 years.

i) Property, plant and equipment

Property, plant and equipment other than other properties and investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the statement of comprehensive income. Improvements are capitalised and depreciated over their expected useful lives.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

The gain or loss on disposal of property, plant and equipment other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the statement of comprehensive income.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– buildings situated on leasehold land are depreciated on a straight-line basis over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion;

– other property, plant and equipment are depreciated on a straight-line method over their estimated useful lives as follows:

Leasehold improvements	5 years or over the remaining term of the lease, if shorter
Furniture and equipment	5 to 8 years
Motor vehicles	5 years

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

i) Property, plant and equipment *(continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the year in which they are incurred.

j) Impairment of assets

i) Impairment of investments in debt and equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries, associates and jointly controlled entities: see note 2(j)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at each statement of financial position date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

j) Impairment of assets *(continued)*

i) Impairment of investments in debt and equity securities and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For accounts receivable and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale equity securities which are stated at fair value, when a decline in the fair value has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

j) Impairment of assets *(continued)*

i) Impairment of investments in debt and equity securities and other receivables (continued)

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of debtors included within accounts receivable and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

ii) Impairment of other assets

Internal and external sources of information are reviewed at each statement of financial position date to identify indications that the following assets may be impaired or, except in the case of goodwill an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;
– lease premium for land;
– investments in subsidiaries, associates and jointly controlled entity (except for those classified as held for sale);
– intangible assets; and
– goodwill.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

j) Impairment of assets *(continued)*

ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the statement of comprehensive income in the year in which the reversals are recognised.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

j) Impairment of assets *(continued)*

iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year *(see note 2(j))*.

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

l) Financial assets

The Group classified its investments in securities in the following categories: held-to-maturity securities, available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired.

i) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity securities are stated at amortised cost using the effective interest method.

ii) Available-for-sale financial assets

Available-for-sale financial assets are initially recognised at fair value plus transaction costs. At each statement of financial position date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(m) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss as set out in note 2(m). When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or when they expire.

For available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each statement of financial position date subsequent to initial recognition. An impairment loss is recognised in statement of comprehensive income when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent period.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

l) Financial assets *(continued)*

iii) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the statement of financial position date. Financial assets at fair value through profit or loss are carried at fair value, realised and unrealised gains and losses arising from changes in the fair value of these investments are included in the statement of comprehensive income in the period in which they arise.

iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. They arise when the Group provides money or services directly to a debtor or a related company with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets.

m) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sale of goods

Revenue is recognised when goods are delivered at the supermarket chain stores which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

m) Revenue recognition *(continued)*

ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Government grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

vi) Sale of trading securities

Revenue on sale of trading securities is recognised on a trade date basis when the relevant transactions are executed.

vii) Available-for-sale investments

Gains and losses arising from changes in the fair value of available-for-sale investments, other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the investments is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit and loss.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

n) Accounts receivable and other receivables

Accounts receivable and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts *(see note 2(j))*.

o) Accounts payable and other payables

Accounts payable and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

p) Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions during the year are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale investments, are included in the fair value reserve in equity.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

p) Foreign currencies *(continued)*

Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operation, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

q) Retirement scheme

The Group operates a defined contribution mandatory provident fund retirement benefits scheme (the "Hong Kong Scheme") under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the Hong Kong Scheme. The Hong Kong Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the Hong Kong Scheme. The assets of the Hong Kong 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 Hong Kong Scheme.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

r) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

t) Income tax *(continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each statement of financial position date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

t) Income tax *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

u) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

v) Investment property

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

v) Investment property *(continued)*

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the statement of comprehensive income during the financial period in which they are incurred. Changes in fair values are recognised in the statement of comprehensive income.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the statement of comprehensive income.

Investment property held for sale without redevelopment is classified within non-current assets held for sale, under HKFRS 5.

w) Employee benefits

i) Short term employee benefits and contributions to defined contribution plans

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employee of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the binomial pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

w) Employee benefits *(continued)*

ii) Share-based payments (continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

iii) Termination benefits

Termination benefits are recognised when, and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

x) Related parties

For the purpose of these financial statements, parties are considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group; or

ii) the Group and the party are subject to common control; or

iii) the party is an associate of the Group or a joint venture in which the Group is a venturer; or

iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

x) Related parties *(continued)*

vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

y) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

z) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

aa) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purpose of these financial statements.

The Group has been concentrating for over 90% of its operation in one business and one geographical segment. Therefore, no segment information by business activity nor by geographical area is presented.

3. TURNOVER, OTHER REVENUE AND OTHER NET INCOME

The principal activities of the Group are the retailing operations in supermarket stores.

Turnover represents the retailing operations in supermarket stores, sales of food products during the year. In 2007, turnover also included the gross sales proceed from trading of securities.

The Group's revenue, other revenue and other net income for the year arose from the following activities:

	Group	
	2008	2007
	HK$'000	HK$'000
Revenue		
Supermarket chain operations	**1,775,654**	666,288
Sales of food products	**1,408**	–
	1,777,062	666,288
Other revenue		
Bank interest income	**7,126**	5,605
Loan interest income	**1,749**	2,691
Total interest income on financial assets not at fair value through profit or loss	**8,875**	8,296
Gross rental income from investment property	**4,456**	32
Dividend income from unlisted investment	**304**	206
Dividend income from listed investments	**328**	–
Reversal of impairment loss on receivables	**5,465**	–
Write back of other payables	**–**	3,493
Income from government subsidies	**2,583**	999
Forfeiture of share options	**–**	334
Gross rental income from leasing of shop premises	**39,041**	16,589
Promotion and store display income from suppliers	**173,818**	65,396
Others	**10,937**	4,548
Other net income		
Gain on disposal of marketable securities	**–**	10,451
Gain on disposal of share options	**–**	1,686
Exchange gain, net	**4,817**	24
Gain on disposal of property, plant and equipment	**–**	985
	250,624	113,039

In the current year, certain comparative figures of consolidated statement of comprehensive income have been reclassified to confirm with current years' presentation. The Directors consider the current year presentation is able to provide more relevant financial information.

4. SEGMENT INFORMATION

The Group is principally engaged in the supermarket chain operations. The turnover, operating profit and total assets, total liabilities and capital expenditures attributable to this business segment accounted for over 90% of the Group's consolidated totals for the years ended 31 December 2008 and 2007. Consequently, no segment information by business activity is presented.

The Group's operations are primarily in the People's Republic of China (the "PRC") and the Group's sales and total assets attributable to other geographical areas are less than 10% of the Group's corresponding consolidated totals for the years ended 31 December 2008 and 2007. Consequently, no segment information by geographical area is presented.

5. PROFIT BEFORE TAXATION

The Group's profit before taxation is arrived at after charging/(crediting):

	2008	2007
	HK$'000	HK$'000
Depreciation	**28,723**	15,542
Amortisation of land lease premium	**23**	23
Amortisation of intangible assets	**7,287**	2,352
Cost of inventories sold *(note 24(b))*	**1,599,691**	600,799
Operating lease payments – land and buildings	**80,479**	33,666
Donation	**50**	–
Auditors' remuneration	**1,534**	1,216
Net foreign exchange gain	**(4,817)**	(24)
Staff costs (including directors' remuneration – note 7):		
Salaries, allowances and other benefits	**93,576**	35,370
Pension scheme contribution	**20,949**	1,007
Share-based payment expenses	**14,761**	1,342
	129,286	37,719
Increase in fair value of investment property	**(812)**	–
Rental income from investment property less direct outgoings 2008: Nil (2007: HK$3,000)	**(4,456)**	(13)
Changes in fair value of financial assets at fair value through profit or loss	**9,881**	3,175
Loss on disposal of property, plant and equipment	**9,355**	502

6. FINANCE COSTS

	Group 2008 HK$'000	2007 HK$'000
Interest expense on bank loans, bank overdrafts and other loans repayable within five years	**11,151**	5,521
Total interest expense on financial liabilities not at fair value through profit or loss	**11,151**	5,521
Interest on convertible note	**–**	3,071
	11,151	8,592

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

Director's remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

i) The details of emoluments of every director are shown below:

	Year ended 31 December 2008				
	Fees HK$'000	Basic salaries, allowances and other benefits HK$'000	Share-based payments HK$'000	Pension scheme contribution HK$'000	Total HK$'000
Executive directors					
Cheung Siu Lam *(Chairman)*	**–**	**3,154**	**2,155**	**12**	**5,321**
Chan Yuk Ming	**–**	**906**	**2,155**	**12**	**3,073**
Lo Wan	**–**	**332**	**2,155**	**12**	**2,499**
Non-executive director					
Yu Hei Wung, Raymond *(Note 1)*	**–**	**–**	**–**	**–**	**–**
Liu Hui *(Note 2)*	**41**	**–**	**–**	**–**	**41**
Independent non-executive directors					
Wang Jian Sheng	**41**	**–**	**–**	**–**	**41**
Chan Chun Keung	**41**	**–**	**–**	**–**	**41**
Tsang Kwok Wai *(Note 3)*	**82**	**–**	**–**	**–**	**82**
	205	**4,392**	**6,465**	**36**	**11,098**

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION *(continued)*

i) The details of emoluments of every director are shown below: *(continued)*

	Year ended 31 December 2007				
	Fees HK$'000	Basic salaries, allowances and other benefits HK$'000	Share-based payments HK$'000	Pension scheme contribution HK$'000	Total HK$'000
Executive directors					
Cheung Siu Lam *(Chairman)*	–	2,980	196	12	3,188
Chan Yuk Ming	–	807	196	12	1,015
Lo Wan	–	291	196	12	499
Non-executive directors					
Yu Hei Wung, Raymond *(Note 1)*	–	10	–	–	10
Liu Hui *(Note 2)*	9	–	–	–	9
Independent non-executive directors					
Wang Jian Sheng	40	–	–	–	40
Chan Chun Keung	40	–	–	–	40
Tsang Kwok Wai *(Note 3)*	48	–	–	–	48
Yue Ming Wai, Bonaventure *(Note 4)*	30	–	–	–	30
	167	4,088	588	36	4,879

Notes:

1. Re-designated from executive director to non-executive director with effect from 1 August 2005 and resigned as non-executive director on 7 March 2007.

2. Appointed on 8 October 2007.

3. Appointed on 28 May 2007.

4. Appointed on 1 June 2006 and resigned on 28 May 2007.

As at 31 December 2008, the directors held share options under the Company's share option scheme. The details of the share options are disclosed under the paragraph "Share Option Scheme" in the report of the directors and in note 35.

No directors waived any emoluments during the year. No incentive payment or compensation for loss of office was paid or payable to any directors for the year ended 31 December 2008 (2007: Nil).

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION *(continued)*

ii) Individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, three (2007: three) were directors of the Company whose emoluments are included in the disclosure in note 7(i) above. The emoluments of the remaining two (2007: two) individuals were as follows:

	2008	2007
	HK$'000	HK$'000
Salaries and other benefits	**1,200**	980
Contributions to retirement benefits schemes	**24**	24
Share-based payment expenses	**1,724**	157
	2,948	1,161

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The emoluments of the two individuals other than directors with the highest emoluments are within the following bands:

	2008	2007
	HK$'000	HK$'000
Number of individuals		
HK$Nil up to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**2**	–
	2	2

8. INCOME TAX

a) The taxation in the consolidated statement of comprehensive income represents:

	Group	
	2008	2007
	HK$'000	HK$'000
Hong Kong Profits Tax		
Provision for the year	**–**	421
PRC enterprise income tax		
Provision for the year	**4,011**	1,495
Under-provision of PRC enterprise income tax in prior years	**222**	–
Deferred taxation *(Note 33)*	**(1,386)**	–
Tax charge	**2,847**	1,916

Income tax for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2008	2007
	HK$'000	HK$'000
Profit before taxation	**258,721**	8,233
Calculated at a taxation rate of 16.5% (2007: 17.5%)	**42,688**	1,441
Effect of different taxation rate in other countries	**183**	1,489
Income not subject to taxation	**(156,049)**	(874)
Expenses not deductible for taxation purposes	**145**	1,470
Effect of depreciation allowance	**(25)**	–
Utilisation of tax losses previously not recognised	**(2,288)**	(2,636)
Deferred tax assets not recognised	**119,357**	1,105
Deferred taxation	**(1,386)**	–
Under-provision in prior years	**222**	–
Reversal of temporary difference	**–**	(79)
Tax charge	**2,847**	1,916

Hong Kong profits tax has been provided for at the rate of 16.5% (2007: 17.5%) on the estimated net assessable profits for the year.

8. INCOME TAX *(continued)*

a) The taxation in the consolidated statement of comprehensive income represents: *(continued)*

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2007: 33%).

Taxes on profits assessable other than Hong Kong have been calculated at the rates of tax prevailing in the places in which the Group operates based on existing legislation, practices and interpretations thereof.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the tax rate for a subsidiary has been revised from 33% to 25% from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

b) Taxation in the consolidated statement of financial position represents:

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**(669)**	(85)
Derecognition of a jointly controlled entity	**172**	–
Acquisition of a subsidiary	**(430)**	–
Provision for the year		
– Hong Kong taxation	**–**	(421)
– PRC taxation	**(4,011)**	(1,495)
(Under)/over provision in prior year	**(222)**	46
Taxation paid for PRC enterprise	**5,070**	1,291
Exchange adjustment	**(168)**	(5)
At 31 December	**(258)**	(669)
Analysed for reporting purposes as:		
Tax recoverable	**567**	567
Tax payables	**(825)**	(1,236)
	(258)	(669)

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company includes a profit of HK$163,602,000 (2007: net loss of HK$7,878,000) which has been dealt with in the financial statements of the Company.

10. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2008 (2007: Nil).

11. EARNINGS PER SHARE

i) The calculation of basic earnings per share for the year is based on the net profit attributable to equity holders of the Company of HK$247,686,000 (2007: HK$6,330,000) and the weighted average number of 1,716,312,172 (2007: 1,329,614,939) shares in issue during the year.

ii) The diluted earnings per share for the year is calculated by dividing the net profit attributable to equity holders of the company of HK$247,686,000 by the weighted average number of ordinary shares outstanding during the year.

The calculation of basic and diluted earnings per share are based on:

	2008	2007
	HK$'000	HK$'000
Earnings		
Profit attributable to equity holders of the Company	**247,686**	6,330

	Number of Shares	
	2008	2007
Shares		
Weighted average number of ordinary shares at 31 December	**1,716,312,172**	1,329,614,939
Effect of dilution – weighted average number of ordinary shares: Share options	**–**	8,171,750
Weighted average number of ordinary shares (diluted) at 31 December	**1,716,312,172**	1,337,786,689

Note: As there were no diluted options and other dilutive potential shares in issue during the year, diluted earnings per share is the same as basic earnings per share.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Building held for own use carried at cost HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and equipment HK$'000	Total HK$'000
Cost					
At 1/1/2007	2,217	38,934	3,599	47,248	91,998
Additions	–	1,359	1,225	2,317	4,901
Disposals	(1,390)	(2,363)	(1,023)	(3,441)	(8,217)
Exchange adjustment	–	3,698	140	4,572	8,410
At 31/12/2007	827	41,628	3,941	50,696	97,092
At 1/1/2008	827	41,628	3,941	50,696	97,092
Additions					
– through acquisition of a subsidiary	–	18,962	449	18,195	37,606
– others	–	20,555	911	13,554	35,020
Disposals	–	(9,491)	(1,231)	(22,130)	(32,852)
Exchange adjustment	–	7,889	224	9,679	17,792
At 31/12/2008	**827**	**79,543**	**4,294**	**69,994**	**154,658**
Accumulated depreciation					
At 1/1/2007	1,214	22,505	2,633	27,332	53,684
Charge for the year	9	5,270	551	9,712	15,542
Written back on disposals	(721)	(2,026)	(900)	(2,414)	(6,061)
Exchange adjustment	–	2,655	103	3,303	6,061
At 31/12/2007	502	28,404	2,387	37,933	69,226
At 1/1/2008	502	28,404	2,387	37,933	69,226
Charge for the year	10	14,361	698	13,654	28,723
Written back on disposals	–	(4,935)	(1,148)	(16,889)	(22,972)
Exchange adjustment	–	6,272	176	8,030	14,478
At 31/12/2008	**512**	**44,102**	**2,113**	**42,728**	**89,455**
Carrying amount					
At 31/12/2008	**315**	**35,441**	**2,181**	**27,266**	**65,203**
At 31/12/2007	325	13,224	1,554	12,763	27,866

The building of the Group is held under medium term lease and situated in Hong Kong.

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company

	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and equipment HK$'000	Total HK$'000
Cost				
At 1/1/2007 and 1/1/2008	378	1,992	464	2,834
Additions	–	–	6	6
At 31/12/2008	**378**	**1,992**	**470**	**2,840**
Accumulated depreciation				
At 1/1/2007	303	768	117	1,188
Charge for the year	75	245	93	413
At 31/12/2007 and 1/1/2008	378	1,013	210	1,601
Charge for the year	–	245	68	313
At 31/12/2008	**378**	**1,258**	**278**	**1,914**
Carrying amount				
At 31/12/2008	**–**	**734**	**192**	**926**
At 31/12/2007	–	979	254	1,233

13. LAND LEASE PREMIUM

The Group's interests in lease premium for land represent prepaid operating lease payments and their carrying amount are analysed as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount at 1 January	**928**	2,071
Amortisation	**(23)**	(23)
Disposal	**–**	(1,390)
Written back on disposal	**–**	270
Carrying amount at 31 December	**905**	928
Current portion of land lease premium	**(23)**	(23)
Non-current portion	**882**	905

14. INVESTMENT PROPERTY

	Group	
	2008	2007
	HK$'000	HK$'000
At valuation:		
At 1 January	**–**	13,200
Addition	**57,142**	–
Increase in fair value	**812**	–
Disposal	**–**	(13,200)
At 31 December	**57,954**	–

The Group's investment property is situated at No. 88, Xi San Wan Road North, Hai Ding District, Beijing. It is held under a long term lease for rental purpose. It was stated at fair value as at 31 December 2008. The investment property was revalued on 31 December 2008 by Beijing Ding Xian Property Valuation Company Limited, an independent professional qualified valuer who have among their staff, members of the Ministry of Construction of the People's Republic of China, with recent experience in the location and category of property being valued. The valuation, which conform to the 房地產估價規範, have been determined by reference to recent market transactions in comparable properties, on an open market, existing use basis.

Subsequent to the statement of financial position date, the Group's investment property was pledged to a bank in the PRC to secure banking facilities granted to a subsidiary of the Group in February 2009 *(note 40)*.

15. INTANGIBLE ASSETS – TRADEMARKS

	Group		
	Hualian GMS *(note a)* HK$'000	**Hi-24** *(note b)* HK$'000	**Total** HK$'000
Cost			
At 1/1/2007, 31/12/2007 and 1/1/2008	58,800	–	58,800
Additions-through acquisition of a subsidiary	173,348	–	173,348
Additions	–	448	448
Disposal	(58,800)	–	(58,800)
At 31/12/2008	**173,348**	**448**	**173,796**
Accumulated amortization			
At 1/1/2007	784	–	784
Amortisation for the year	2,352	–	2,352
At 31/12/2007 and 1/1/2008	3,136	–	3,136
Amortisation for the year	6,356	9	6,365
Written back	(3,136)	–	(3,136)
At 31/12/2008	**6,356**	**9**	**6,365**
Carrying amount			
At 31/12/2008	**166,992**	**439**	**167,431**
At 31/12/2007	55,664	–	55,664

The amortisation charge for the year is included in administrative expenses in the consolidated statement of comprehensive income.

Note:

a) Hualian GMS is the trademark for a supermarket chain operation.

b) Hi-24 is the trademark for a convenience chain stores operation.

16. INTERESTS IN SUBSIDIARIES

	Company 2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	**33,519**	33,088
Less: Impairment loss	**(19,250)**	(19,250)
Add: reversal of impairment loss	**19,250**	–
	33,519	13,838

Impairment loss of HK$19,250,000 had been provided for in previous years in view of the prolonged decline in the fair value of the investment in the Group's subsidiary, K.P.B. Group Holdings Limited ("K.P.B.") due to unsatisfactory operating results of K.P.B.'s subsidiaries. However, in the current year, the management has carried out an update review of the financial position and future prospect of K.P.B. and its subsidiaries (the "KPB Group"). KPB Group is now at net assets position and the directors considered that the KPB Group has a good future prospect with estimated positive future cash inflows and therefore decided to write back the impairment loss formerly provided for.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group:

Name	Place of incorporation/ registration and operation	Nominal value of share/registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
K.P.B. Group Holdings Limited	British Virgin Islands ("BVI")/ Hong Kong	Ordinary US$12	100%	–	Investment holding
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
K.P.A. Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100%	Property investment
K.P.B. Asset Holdings Limited	BVI/Hong Kong	Ordinary US$6	–	100%	Investment holding

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operation	Nominal value of share/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
K.P.B. Marketing Limited ("KPB Marketing")	BVI/Hong Kong	Ordinary US$2	–	100%	Investment holding
K.P.B. – T.C. Holdings Limited	BVI/Hong Kong	Ordinary US$1	–	100%	Investment holding
K.P.B. Trading Limited	BVI/Hong Kong	Ordinary US$4	–	100%	Investment holding
K.P.I. Development Limited	Hong Kong	Ordinary HK$2 Deferred HK$10,000	–	100%	Trading of financial securities
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%	Holding of a club membership and trading of financial securities
K.P.I. (BVI) Retail Management Company Limited ("KPIRM")	BVI/Hong Kong	Ordinary US$18,087,700	–	100%	Investment holding
K.P.I. Convenience Retail Company Limited ("KPICR")	BVI/Hong Kong	Ordinary US$50,000	–	72% (2007: 68%)	Investment holding
Bestjoy International Limited	BVI/Hong Kong	Ordinary US$10	–	100%	Investment holding
華聯集團吉買盛購物中心有限公司 *(Note 1)*	PRC	Registered capital RMB80,000,000	–	60%	Supermarket chains

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operation	Nominal value of share/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
海口港佳貿易有限公司（海口港佳）*(Note 2)*	PRC	Registered capital US$12,366,664 (2007: US$9,418,854)	–	100%	Investment holding
上海港佳倍盛經貿有限公司#*(Note 3)*	PRC	Registered capital RMB2,000,000	–	100%	General trading
北京中嘉利通商貿有限公司 *(Note 4)*	PRC	Registered capital RMB30,000,000	–	100%	General trading
北京中港佳鄰商業有限公司 *(Note 5)*	PRC	Registered capital US$1,000,000	–	72%	Convenience stores

\# *Not audited by CCIF CPA Limited*

Notes:

1) 華聯集團吉買盛購物中心有限公司 (Hualian GMS Shopping Center Company Limited)* ("Hualian GMS") is an equity joint venture established in the PRC to be operated for 20 years up to March 2016 (note 18).

2) 海口港佳is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to August 2015.

3) 上海港佳倍盛經貿有限公司 is a sino-foreign equity joint venture established in the PRC to be operated for 10 years up to March 2012.

4) 北京中嘉利通商貿有限公司 is a wholly owned enterprise by 海口港佳 to be operated for 15 years up to March 2023.

5) 北京中港佳鄰商業有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to March 2028.

* *For identification purpose only*

17. INTERESTS IN ASSOCIATES

	Group 2008 HK$'000	2007 HK$'000
Share of net assets	**2,112**	2,112
Disposal of an associate	**(2,112)**	–
At 31 December	**–**	2,112

17. INTERESTS IN ASSOCIATES *(continued)*

Details of the associates are as follows:

Name	Business structure	Place of registration and operation	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Taicang Huifeng Chemical Fertiliser Company Limited# *(Note 1)*	Corporate	PRC	30%	–	30%	Processing and trading of chemical fertilisers
上海華聯港佳商業經營管理有限公司# *(Note 2)*	Corporate	PRC	49%	–	49%	Ceased operation

Note: 1) Taicang Huifeng Chemical Fertiliser Company Limited is a Sino-foreign equity joint venture established in the PRC to be operated for 30 years up to May 2025.

2) 上海華聯港佳商業經營管理有限公司 is a Sino-foreign equity joint venture established in the PRC to be operated for 25 years up to April 2021.

\# *Not audited by CCIF CPA Limited.*

Summary financial information on associates:

	2008 100% HK$'000	**2008** Group's effective interest HK$'000	2007 100% HK$'000	2007 Group's effective interest HK$'000
Assets	–	–	4,310	2,112
Liabilities	–	–	–	–
Equity	–	–	4,310	2,112
Revenue	–	–	–	–
Profit/(loss)	–	–	–	–

上海華聯港佳商業經營管理有限公司 is a sino-foreign equity joint venture established in the PRC to be operated for 25 years up to April 2021. The associate was disposed of during the year and the loss on disposal is HK$459,000.

18. INTEREST IN A JOINTLY CONTROLLED ENTITY

Details of the Group's interest in the jointly controlled entity are as follows:

Name	Business structure	Place of establishment and operation	Value of registered share capital	Proportion of ownership interest: Group's effective interest 2008	2007	Held by the Company 2008	2007	Held by a subsidiary 2008	2007	Principal activities
華聯集團吉買盛購物中心有限公司 *(Note)*	Corporate	PRC	Registered capital RMB80,000,000	**60%**	40%	**–**	–	**60%**	40%	Supermarket chain operations

Note: Hualian GMS is an equity joint venture established in the PRC to be operated for 20 years up to March 2016.

Summary financial information on the jointly controlled entity:

	2008 100% HK$'000	**2008** Group's effective interest HK$'000	2007 100% HK$'000	2007 Group's effective interest HK$'000
Assets	**–**	**–**	895,845	358,338
Liabilities	**–**	**–**	(856,365)	(342,546)
Equity	**–**	**–**	39,480	15,792
Revenue	**198,225**	**79,290**	1,665,720	666,288
Profit for the year	**4,122**	**1,649**	20,591	8,237

In January 2008, a wholly-owned subsidiary of the Group, KPIRM, entered into an agreement with Time Galaxy and Time Region to purchase the entire issued share capital of Bestjoy, which is directly held as to 20% by Time Region and as to 80% by Time Galaxy (the "Transaction"). Bestjoy held 20% equity interest in Hualian GMS. After the completion of the transaction, the Group indirectly held 60% equity interest in Hualian GMS. The jointly controlled entity was derecognised during the year. On completion of the Transaction, Hualian GMS became an indirect subsidiary of the Company *(note 16)*.

19. GOODWILL

	Group 2008 HK$'000	Group 2007 HK$'000
Cost		
At 1 January	**15,339**	15,339
Additions through acquisition of a subsidiary *(note 37)*	**377,972**	–
Disposal	**(13,493)**	–
At 31 December	**379,818**	15,339
Accumulated impairment		
At 1 January and 31 December	**1,846**	1,846
Carrying amount		
At 31 December	**377,972**	13,493

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to business segments as follows:

	Group 2008 HK$'000	Group 2007 HK$'000
Trading of chemical fertiliser		
Balance brought forward	**1,846**	1,846
Less: Impairment	**(1,846)**	(1,846)
Carrying amount carried forward	**–**	–
Supermarket chain operations	**377,972**	13,493

Impairment tests for cash-generating units containing goodwill

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Cashflow beyond the five year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. Discount rate of 6.75% (2007: 6.75%) has been used for the value-in-use calculation.

19. GOODWILL *(continued)*

Impairment tests for cash-generating units containing goodwill *(continued)*

Key assumptions used for value-in-use calculations:

	Group	
	2008	2007
	%	%
Gross margin	**9.98**	9.83
Growth rate	**7.5**	9.6
Discount rate	**6.75**	6.75

Management determined the budgeted operating profit margin based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

Based on the impairment tests performed, the recoverable amount of the CGU is higher than its carrying amount based on value-in-use calculation. Accordingly, no impairment loss is recognised for the year (2007: Nil).

20. AMOUNT DUE FROM A JOINT VENTURE PARTNER

In 2007, the amount due from a joint venture partner is unsecured, non-interest bearing and is not repayable within the next twelve months. In 2008, the jointly controlled entity became a subsidiary within the Group, the inter-group balances were eliminated on consolidation.

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2008	2007
	HK$'000	HK$'000
Listed securities – Hong Kong	**18,084**	–
Unlisted securities	**156**	–
Unlisted investments:		
– Golf club memberships, at fair value	**2,761**	2,761
– Long term equity interest, at cost	**773**	773
Total	**21,774**	3,534

The Group has reclassified certain financial assets classified as held for trading into the available-for-sale (AFS) category as these were no longer considered to be held for the purpose of selling or repurchasing in the near term. At the time of transfer, the Group identified the rare circumstances permitting such a transfer as the impact of the ongoing credit crisis in financial markets, particularly from the beginning of 2008, which significantly impacted liquidity in certain markets.

21. AVAILABLE-FOR-SALE INVESTMENTS *(continued)*

The following table provides details of the assets reclassified in 2008 as at and up to the date of reclassification:

	Carrying amount reclassified	Fair value loss from 1 January 2008 to the reclassification date recognised within: Income	AFS reserve	Fair value loss to 31 December 2007 recognised within: Income	AFS reserve
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
For assets reclassified:					
From trading to AFS	25,488	7,849	–	318	–

The following table provides details of the reclassified assets from the date of reclassification until 31 December 2008:

	Carrying amount at 31 December 2008	Fair value at 31 December 2008	If assets had not been reclassified, fair value loss from the date of reclassification to 31 December 2008 which would have been recognised within Income	AFS reserve	Income recognised in the statement of comprehensive income
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
For assets reclassified:					
From trading to AFS	18,240	25,283	6,460*	–	7,043

* *Post-reclassification, the loss is recognised within the available-for-sale reserve.*

As at 31 December 2007 and 2008, the Group's long term equity interest was not stated at fair value but at cost because it did not have a quoted market price in an active market and the fair value cannot be reliably measured. No impairment is recognised since there is no objective evidence that the long term equity interests impaired.

According to amendments to HKAS 39 and HKFRS 7, the financial assets in respect of the listed securities in Hong Kong and other unlisted securities are reclassified from the "fair value through profit or loss" category *(note 23)* to "available-for-sale" in the year 2008.

22. ACCOUNTS RECEIVABLE

	Group	
	2008	2007
	HK$'000	HK$'000
Accounts receivable	**261**	–

All the accounts receivable are expected to be recovered within one year. The carrying amount of accounts receivable approximate to their fair values.

Accounts receivable are due within 30 days from date of billing. Further details on the group's credit policy are set out in note 43(a).

(a) Age analysis

The aging analysis of accounts receivable at the statement of financial position date is as follows:

	2008	2007
	HK$'000	HK$'000
Outstanding balances with ages		
Due with in 1 month or on demand	**–**	–
Due after 1 month but within 3 months	**261**	–
	261	–

(b) Accounts receivable that are not impaired

	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**261**	–

Accounts receivable that were neither past due nor impaired relate to recognised and creditworthy customers for whom there was no recent history of default.

The Group does not hold any collateral or other credit enhancements over these balances.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2008	2007
	HK$'000	HK$'000
Listed securities – Hong Kong	**–**	29,164
Unlisted securities	**–**	609
	–	29,773

In accordance with amendments to HKAS 39 and HKFRS 7, the financial assets are reclassified from "fair value through profit or loss" to "available-for-sale" category in 2008 *(note 21)*.

24. INVENTORIES

a) Inventories in the consolidated statement of financial position comprise:

	Group	
	2008	2007
	HK$'000	HK$'000
Merchandise held for sale	**219,514**	68,774

As at 31 December 2008, none of the inventories were carried at net realisable value (2007: Nil).

b) The analysis of the amount of inventories recognised as an expense is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount of inventories sold	**1,599,691**	600,799

25. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans receivable	**45,439**	83,699	**–**	–
Less: Allowance for doubtful debts	**(23,018)**	(26,110)	**–**	–
Loans receivable, net	**22,421**	57,589	**–**	–
Credit card receivables	**27,794**	8,767	**–**	–
Trade and deposits paid	**80,993**	12,274	**–**	–
Prepayments	**22,782**	14,123	**95**	334
Utility and sundry deposits	**815**	723	**724**	722
VAT and other tax receivables	**21,143**	4,228	**–**	–
Receivable from store display income	**104,158**	43,310	**–**	–
Deposit paid for acquisition of a subsidiary	**–**	5,636	**–**	–
Others	**79,543**	39,798	**1,028**	41
	359,649	186,448	**1,847**	1,097
Less: Long-term lease prepayment*	**(8,591)**	(3,668)	**–**	–
	351,058	182,780	**1,847**	1,097

* *This amount represents rental prepayment by one of the supermarkets of Hualian GMS. The signed tenancy agreement covers a period up to February 2018 and the prepayment would be amortized annually. The Group would amortize the prepayment till the expiry of tenancy agreement.*

25. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

Impairment losses in respect of loans and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against loans and other receivables directly (see note 2(j)).

The movement in the allowance for loans receivable during the year is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**26,110**	26,110
Uncollectible amounts written off	**(3,092)**	–
At 31 December	**23,018**	26,110

As at 31 December 2008, loan receivable of the Group amounting to HK$3,092,000 (2007: Nil) were individually determined to be impaired and the recovery is remote. The loan receivable was outstanding for over 365 days as at the statement of financial date. Accordingly, the amount was written off. The group does not hold any collateral over this loan.

The Group does not hold any collateral or other credit enhancements over these balances.

26. LOAN AND INTEREST RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**64,350**	61,659
Interest receivables	**–**	2,691
Loan released during the year *(Notes 37 & 41)*	**(64,350)**	–
At 31 December	**–**	64,350

In April 2006, a loan amounted to approximate HK$55,956,000 (the "Loan") was lent to an independent party, Mr. Zhang Qizhong ("Mr. Zhang"), by a wholly-owned subsidiary of the Group, KPB Marketing (the "Lender"). The Loan bored interest at 15% p.a. and matured after one year from the date of advance. Pursuant to the Loan agreement, the Group has the rights to request Mr. Zhang to identify any security provider to provide or provide by himself any assets with fair value not less than the outstanding amount of the Loan as security as the Lender may reasonably require for securing the Loan granted by the Group.

26. LOAN AND INTEREST RECEIVABLES *(continued)*

In 2007, Time Galaxy Limited ("Time Galaxy") entered into a guarantee agreement with KPB Marketing in favour of Mr. Zhang, pursuant to which Time Galaxy agreed to guarantee the obligations of Mr. Zhang under the Loan agreement. Time Galaxy and Time Region Holdings Limited ("Time Region") are the beneficial owners of Bestjoy International Limited ("Bestjoy"). Bestjoy is the registered owner of a 20% equity interest in Hualian GMS. On 28 November 2007, KPIRM entered into a sales and purchase agreement with Time Galaxy and Time Region to purchase the 100% equity interests of Bestjoy (the "Transaction"). According to the sales and purchase agreement, the amount guaranteed by Time Galaxy in favour of Mr. Zhang is released as part of the consideration. The Transaction was completed in January 2008 and the loan was released. The guarantee was also released upon completion of the transaction.

27. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

28. PLEDGED DEPOSITS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Pledged cash deposits	**339**	6,372	**–**	–

In 2007 and 2008, the amount represents the cash deposits pledged to certain financial institutions to secure for the acquisition of the financial assets at fair value through profit or loss and available-for-sale investments of the Group respectively.

29. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks/financial institutions and on hand	**516,182**	247,864	**1,032**	26,956
Time deposits at financial institutions	**34,542**	10,796	**6,315**	10,796
Cash and cash equivalents in the consolidated statement of cash flows	**550,724**	258,660	**7,347**	37,752
Pledged cash balances against financial assets	**(339)**	(6,372)	**–**	–
Cash and cash equivalents in the consolidated statement of financial position	**550,385**	252,288	**7,347**	37,752

Cash and cash equivalents include short-term bank deposits carrying interest at prevailing market rates. The directors consider the carrying amounts of cash and cash equivalents at the statement of financial position date approximates to the fair value.

30. ACCOUNTS PAYABLE

The aging of the Group's accounts payable is analysed as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Outstanding balances with ages		
Due within 1 month or on demand	**222,075**	80,062
Due after 1 month but within 3 months	**235,312**	87,798
	457,387	167,860

Accounts payable are interest free and are normally settled on 90-day terms. The carrying amounts of accounts payable approximate to their fair values due to their short term maturity and measured at amortised cost.

31. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accrued salaries, wages and benefits	**12,380**	6,447	**20**	–
Accrued expenses	**13,861**	3,456	**336**	94
Rental and other deposits received	**34,333**	13,173	**–**	–
Deposits from gift vouchers and membership cards	**258,402**	60,322	**–**	–
VAT and other tax payables	**2,307**	691	**–**	–
Others	**49,134**	10,350	**–**	–
	370,417	94,439	**356**	94

All of the other payables, deposits received and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

32. SHORT TERM BANK LOANS – UNSECURED

	2008	2007
	HK$'000	HK$'000
Repayable within one year	**169,587**	63,830

The short-term bank loans represent the bank loans granted to a subsidiary by a bank, which are unsecured and denominated in RMB, bear annual interest rates ranging from 6.242% to 6.876% (2007: 5.9535% to 7.02%). The bank loans are repayable within three to nine months.

33. DEFERRED TAX LIABILITIES

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follow:

	Identifiable assets-trademark HK$'000	Revaluation of investment property HK$'000	Total HK$'000
Deferred tax arising from:			
At 1 January 2008	–	–	–
(Credited)/charged to profit or loss	(1,589)	203	(1,386)
Deferred tax liabilities arising on acquisition of subsidiaries	43,337	–	43,337
At 31 December 2008	**41,748**	**203**	**41,951**

Deferred tax assets in respect of the unused tax losses carried forward are to be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

The Group has not recognised the deferred tax assets in respect of the tax losses of HK$19,484,000 (2007: HK$14,337,000) due to unpredictability to future profit streams. The unrecognised tax losses, mainly arising from companies incorporated in Hong Kong, can be carried forward indefinitely.

34. SHARE CAPITAL

	2008		2007	
	No. of shares	**HK$'000**	No. of shares	HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid:				
At beginning of the year	**1,595,902,336**	**159,590**	1,015,877,336	101,588
Issue of new shares *(note a)*	**130,000,000**	**13,000**	–	–
Issue of new shares *(note b)*	**–**	**–**	216,000,000	21,600
Conversion of convertible note *(note c)*	**–**	**–**	290,625,000	29,062
Share issued under share option scheme *(note 35)*	**–**	**–**	73,400,000	7,340
At end of the year	**1,725,902,336**	**172,590**	1,595,902,336	159,590

34. SHARE CAPITAL *(continued)*

(a) On 30 January 2008, the Company issued 68,444,444 and 61,555,556 new shares to Time Galaxy Limited ("Time Galaxy") and Time Region Holdings Limited ("Time Region") respectively, at a market price of HK$0.43 per share in settlement of part of the consideration for the purchase of additional 20% equity interest in Hualian GMS through the acquisition of the entire issued share capital of Bestjoy.

(b) Pursuant to a placing and subscription agreement dated 6 June 2007, Mr. Cheung agreed to place 130,000,000 shares beneficially owned by Mr. Cheung to Keywise Greater China Opportunities Master Fund ("Keywise") at a price of HK$0.380 per share. On the same date, the Company has conditionally agreed to allot and issue, and Mr. Cheung has agreed to subscribe for 130,000,000 new shares at a price of HK$0.380 per share. The placement was completed on 14 June 2007 and the total proceed raised as a result of the placement was HK$49.40 million. Pursuant to a placing and subscription agreement dated 19 July 2007, Mr. Cheung agreed to place, 86,000,000 shares beneficially owned by Mr. Cheung to Best State Investments Limited ("Best State"), at a price of HK$0.405 per share. Best State is an indirectly wholly-owned subsidiary of CITIC Capital Holdings Limited. On the same date, the Company has conditionally agreed to allot and issue, and Mr. Cheung has agreed to subscribe for 86,000,000 new shares at a price of HK$0.405 per share. The placement was completed on 28 August 2007 and the total proceeds raised as a result of the placement was HK$34.83 million.

(c) During the year ended 31 December 2007, convertible note amounting to approximately HK$93 million was converted into 290,625,000 shares of the Company at a conversion price of HK$0.32 per share.

35. SHARE OPTIONS

Equity-settled share option schemes

Pursuant to an ordinary resolution passed on 19 March 2003, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the directors of the Company were authorised to grant share options to full-time employees (including executive directors) of the Company or any of its subsidiaries to subscribe for shares in the Company.

On 7 June 2004, the Old Share Option Scheme was terminated and a new share option scheme ("New Share Option Scheme") was adopted. The purpose of the New Share Option Scheme is to enable the Company to grant option to eligible participants in order to reward or provide incentives to its employees or any person who has contributed or will contribute to the Group. The New Share Option Scheme shall continue in force for the period commencing from 7 June 2004 and expiring at the close of business on the tenth anniversary thereof, after such period no further options will be granted but the provisions of the New Share Option Scheme shall remain in full force and effect in respect of any options granted before its expiry or termination but not yet exercised.

35. SHARE OPTIONS *(continued)*

Equity-settled share option schemes *(continued)*

Under the New Share Option Scheme, the directors of the Company may offer to any employees or any person who has contributions to the Group including directors of the Company or any of its subsidiaries share options to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme.

The maximum number of shares in respect of which share options may be granted under the New Share Option Scheme shall not, when aggregate with any shares subject to any other schemes, exceed such number of shares as represents 10% of the issued shares as at the date of approval of the New Share Option Scheme (the "Scheme Mandate Limit") which shall be equivalent to 67,725,155 shares. On 28 April 2005, the Scheme Mandate Limit was refreshed to 101,587,733 shares. The Company may seek approval from the shareholders in a general meeting to refresh the Scheme Mandate Limit. However, the total number of shares which may be issued upon exercise of all share options to be granted under all of the schemes of the Company or its subsidiaries under the limit as refreshed must not exceed 10% of the shares in issue as at the date of approval of the Scheme Mandate Limit. Share options previously granted under the New Share Scheme (excluding those outstanding, cancelled, lapsed in accordance with the New Share Option Scheme or any other share option schemes and exercised the share options) will not be counted for the purpose of calculating the Scheme Mandate Limit.

The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Share Option Scheme and any other scheme of the Company must not exceed 30% of the total issued share capital from time to time.

The total number of shares issued and to be issued on the exercise of share options granted and to be granted in any 12-month period up to the date of grant of each eligible participant shall not exceed 1% of the total issued shares.

The exercise price is determined by the directors of the Company, and shall not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares.

On 17 May 2004 and 7 July 2004, 38,000,000 share options granted to the executive directors and 1,000,000 share options granted to the continuous contract employees outstanding under the Old Share Option Scheme were lapsed respectively.

On 10 January 2005, 2 February 2005 and 1 September 2005, the Company granted in aggregate 99,500,000 share options to its directors and employees under the New Share Option Scheme. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantees. The options may be exercised at any time after twelve months from the date of grant of the share options to the tenth anniversary of the date of grant.

35. SHARE OPTIONS *(continued)*

Equity-settled share option schemes *(continued)*

On 4 October 2007, the Company granted 68,500,000 share options to its directors and employees under the New Share Option Scheme. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantees. The options may be exercised at any time after twelve months from the date of grant of the share options to the tenth anniversary of the date of grant.

The following table discloses movements of the Company's share options granted under the New Share Option Scheme and movements in such holdings:

				Number of share options				
Category of grantee	Exercise price per share HK$	Date of grant	Exercisable period	At 1 January 2008	Granted during the year	Exercised during the year	Forfeited during the year	At 31 December 2008
Directors	0.479	4 October 2007	4 October 2007 to 3 October 2017	30,000,000	–	–	–	30,000,000
Employees	0.126	10 January 2005	10 January 2005 to 6 June 2014	19,100,000	–	–	–	19,100,000
	0.479	4 October 2007	4 October 2007 to 3 October 2017	38,500,000	–	–	–	38,500,000
				87,600,000	–	–	–	87,600,000

a) The number and weighted average exercise price of share options are as follows:

	2008 Weighted average exercise price HK$	**2008** Number of options '000	2007 Weighted average exercise price HK$	2007 Number of options '000
Outstanding at beginning of the year	**0.402**	**87,600**	0.138	99,500
Granted during the year	**–**	**–**	0.479	68,500
Exercised during the year	**–**	**–**	0.141	(73,400)
Forfeited during the year	**–**	**–**	0.138	(7,000)
Outstanding at end of the year	**0.402**	**87,600**	0.402	87,600
Exercisable at end of the year	**0.402**	**87,600**	0.126	19,100

For share options exercised during 2007, the weighted average share price at the date of exercise was HK$0.537.

The options outstanding at 31 December 2008 had an weighted average exercise price of HK$0.402 (2007: HK$0.402) and a weighted average remaining contractual life of 8.03 years (2007: 9.03 years).

35. SHARE OPTIONS *(continued)*

Equity-settled share option schemes *(continued)*

b) *Fair value of share options and assumptions*

The fair value of services received in return of share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial model.

	31 January 2005	**4 October 2007**
Fair value of options granted	HK$0.04247	HK$0.235
Inputs into the binomial model:		
Share price at grant date	HK$0.131	HK$0.470
Exercise price	HK$0.126	HK$0.479
Expected volatility	107%	68.6%
Expected life	10 years	10 years
Risk-free interest rate	3.62%	4.3%
Expected dividend per share	–	–

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

36. RESERVES

Group

					Other comprehensive incomes						
	Share premium	Convertible note reserve	Statutory public welfare reserve	Share-based compensation reserve	Exchange fluctuation reserve	Fair value reserve	Statutory surplus reserve	(Accumulated losses)/ retained earnings	Attributable to equity holders of the Company	Non controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007	106,879	3,975	173	4,459	3,379	–	205	(39,999)	79,071	9,723	88,794
Placing of new shares	36,400	–	–	–	–	–	–	–	36,400	–	36,400
Placing of new shares	26,230	–	–	–	–	–	–	–	26,230	–	26,230
Issue of new shares upon exercise of share options	6,326	–	–	(3,314)	–	–	–	–	3,012	–	3,012
Forfeiture of share options	–	–	–	(334)	–	–	–	–	(334)	–	(334)
Conversion of convertible note	69,505	(3,975)	–	–	–	–	–	–	65,530	–	65,530
Share issuing expenses	(818)	–	–	–	–	–	–	–	(818)	–	(818)
Exchange adjustment	–	–	–	–	1,669	–	–	–	1,669	–	1,669
Employee share option benefits	–	–	–	1,342	–	–	–	–	1,342	–	1,342
Total comprehensive income attributable to shareholders	–	–	–	–	–	–	–	6,330	6,330	(13)	6,317
Transfer	–	–	(173)	–	–	–	1,188	(1,015)	–	–	–
At 31 December 2007 and 1 January 2008	244,522	–	–	2,153	5,048	–	1,393	(34,684)	218,432	9,710	228,142
Issue of new shares	42,840	–	–	–	–	–	–	–	42,840	–	42,840
Acquisition of a subsidiary	–	–	–	–	–	–	(1,087)	–	(1,087)	69,749	68,662
Employee share option benefits	–	–	–	14,761	–	–	–	–	14,761	–	14,761
Exchange adjustment	–	–	–	–	5,961	–	–	–	5,961	–	5,961
Fair value adjustment for financial assets	–	–	–	–	–	(7,043)	–	–	(7,043)	–	(7,043)
Total comprehensive income attributable to shareholders	–	–	–	–	–	–	–	247,686	247,686	8,188	255,874
Transfer to reserve	–	–	–	–	–	–	441	(441)	–	–	–
At 31 December 2008	**287,362**	**–**	**–**	**16,914**	**11,009**	**(7,043)**	**747**	**212,561**	**521,550**	**87,647**	**609,197**

36. RESERVES *(continued)*

Company

	Share premium HK$'000	Convertible note reserve HK$'000	Share-based compensation reserve HK$'000	(Accumulated losses)/ retained earnings HK$'000	Total HK$'000
At 1/1/2007	106,879	3,975	4,459	(70,504)	44,809
Placing of new shares	36,400	–	–	–	36,400
Placing of new shares	26,230	–	–	–	26,230
Issue of new shares upon exercise of share options	6,326	–	(3,314)	–	3,012
Forfeiture of share options	–	–	(334)	–	(334)
Conversion of convertible note	69,505	(3,975)	–	–	65,530
Share issuing expenses	(818)	–	–	–	(818)
Employee share option benefits	–	–	1,342	–	1,342
Total comprehensive income attributable to shareholders	–	–	–	(7,878)	(7,878)
At 31 December 2007 and 1 January 2008	244,522	–	2,153	(78,382)	168,293
Issue of new shares	42,840	–	–	–	42,840
Employee share option benefits	–	–	14,761	–	14,761
Total comprehensive income attributable to shareholders	–	–	–	163,602	163,602
At 31 December 2008	287,362	–	16,914	85,220	389,496

At 31 December 2008, the Company has no reserve available for distribution as calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance (2007: HK$Nil).

36. RESERVES *(continued)*

Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

(ii) Convertible note reserve

The value of the unexercised equity component of convertible note issued by the Company recognised in accordance with the accounting policy adopted for convertible.

(iii) Statutory public welfare reserve

According to the Company's PRC subsidiaries' articles of association, the PRC company is required to transfer 5% to 10% of its net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory public welfare reserve. This reserve can only be utilised on capital items for the collective benefits of the PRC company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This reserve is non-distributable other than on liquidation. The transfer to this reserve must be made before distribution of a dividend to shareholders.

(iv) Share-based compensation reserve

The share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of a subsidiary recognised in accordance with the accounting policy adopted for share-based payments set out in note 2(w)(ii).

(v) Exchange fluctuation reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 2(p).

36. RESERVES *(continued)*

Nature and purpose of reserves *(continued)*

(vi) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the statement of financial position date and is dealt with in accordance with the accounting policies in note 2(l).

(vii) Statutory surplus reserve

According to the Company's PRC subsidiaries' articles of association, the PRC company is required to transfer 10% of its net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the PRC company's registered capital, any further appropriation is optional. The transfer to this reserve must be made before distribution of a dividend to the shareholders.

Statutory surplus reserve can be used to make up previous years' losses, if any, and may be converted into capital in proportion to their existing shareholdings, provided that the balance after such conversion is not less than 25% of the registered capital.

37. ACQUISITION OF A SUBSIDIARY

In November 2007, a wholly-owned subsidiary of the Group, KPIRM, entered into an agreement with Time Galaxy and Time Region which are independent third parties to purchase the entire issued share capital of Bestjoy. Bestjoy is an investment holding company which directly held as to 20% by Time Region and as to 80% by Time Galaxy (the "Transaction"). Bestjoy held 20% equity interest in Hualian GMS which is engaged in the operation of supermarket chain stores. The acquisition of Bestjoy is for enlarging the Group's equity interest in Hualian GMS. After the completion of the transaction, the Group's indirect equity interest in Hualian GMS increased to 60%. As per the revised Article of Association of Hualian GMS, KPIRM became the controlling shareholder of Hualian GMS.

Before the completion of the Transaction, Hualian GMS was a jointly controlled entity of the Group, in which the Group held 40% equity interest.

The Transaction was completed on 30 January 2008 and the acquisition cost of HK$135,900,000 was satisfied (i) as to HK$64,349,829 by releasing the loans; (ii) as to HK$15,650,171 in cash; and (iii) as to HK$29,431,111 and HK$26,468,889 by issuance of 68,444,444 and 61,555,556 shares of the Company to Time Galaxy and Time Region respectively at fair value of HK$0.43 each, determined by reference to the published closing market price of the shares at the date of the acquisition.

37. ACQUISITION OF A SUBSIDIARY *(continued)*

The net assets acquired in the transaction and the goodwill arising, are as follows:

	HK$'000
Total consideration – satisfied by	
Cash consideration	15,650
Releasing the loan receivable from Mr. Zhang (note 26)	64,350
Issue of shares	55,900
	135,900
Add: Fair value of the previously held 40% equity interest in Hualian GMS	346,696
Add: *Non-controlling interests held 40% equity interest in Hualian GMS	69,749
	552,345
Less: Fair value of identifiable net assets	(174,373)
Goodwill on acquisition *(note 19) (note a)*	377,972

* The non-controlling interest is measured in accordance with paragraph 19 of HKFRS 3 (Revised), at the proportionate Share of the acquiree's identifiable net assets.

37. ACQUISITION OF A SUBSIDIARY *(continued)*

An analysis of the net assets acquired is as follows:

	Acquiree's carrying amount before combination HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Property, plant and equipment	62,676	–	62,676
Inventories	223,361	–	223,361
Other receivables, deposits and prepayments	257,067	–	257,067
Cash and cash equivalents	271,649	–	271,649
Accounts payable	(255,727)	–	(255,727)
Other payables, deposits received and accruals	(304,569)	–	(304,569)
Tax payables	(430)	–	(430)
Short term bank loans	(162,514)	–	(162,514)
Amounts due to shareholders	(47,151)	–	(47,151)
Intangible assets acquired on acquisition *(note b)*	–	173,348	173,348
Deferred tax liabilities arising on acquisition	–	(43,337)	(43,337)
	44,362	130,011	174,373

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration paid	(15,650)
Cash and cash equivalents acquired	271,649
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	255,999

37. ACQUISITION OF A SUBSIDIARY *(continued)*

Note:

a) The goodwill arising on the acquisition of Hualian GMS through Bestjoy is attributable to the anticipated potential earning power of Hualian GMS, the managerial talent of existing management, customer loyalty, excellent network locations and the effective advertising and market penetration. The benefit from these factors are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

b) The intangible asset consists of trademark of a supermarket chain operation and was valued at approximately RMB160 million on 31 January 2008 by an independent qualified valuer, Greater China Appraisal Limited, under the Relief-from-royalty method at the date of acquisition.

Hualian GMS contributed approximately HK$1,696,364,000 to the Group's revenue and approximately HK$16,714,000 (net of non-controlling interest sharing) to the Group's net profit for the period between the date of acquisition and the date of the statement of financial position.

If the acquisition had occurred on 1 January 2008, Group revenue would have been HK$1,894,589,000, and profit for the year would have been HK$19,187,000 for the year ended 31 December 2008. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

38. OPERATING LEASE ARRANGEMENTS

a) As lessor

The Group leases its investment property (note 14 to the financial statements), sub-lease its shop premises of supermarket chain operations and golf club membership under operating lease arrangements, with leases negotiated for terms of one to fifteen years for investment property, one to ten years for shop premises of supermarket chain operations and one to two years 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 then prevailing market conditions.

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

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**29,324**	7,691
In the second to fifth years, inclusive	**63,156**	16,861
After the fifth year	**22,415**	7,026
	114,895	31,578

38. OPERATING LEASE ARRANGEMENTS *(continued)*

b) As lessee

The Group leases certain of its office properties, director's quarter and shop premises of supermarket chain operations under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to twenty years.

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**88,377**	35,244	**1,718**	2,257
In the second to fifth years, inclusive	**319,652**	132,784	**747**	722
After the fifth year	**432,667**	206,575	**–**	–
	840,696	374,603	**2,465**	2,979

39. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

a) Related party transactions included in the statement of comprehensive income:

	2008	2007
	HK$'000	HK$'000
Rental expenses to a company controlled by directors *(note i)*	**996**	996

Notes:

i) Rental expenses for two directors were paid to a company controlled by them. The monthly rental of HK$83,000 was calculated by reference to open market rental.

b) Compensation of key management personnel of the Group

	2008	2007
	HK$'000	HK$'000
Salaries, allowances and other benefits	**3,154**	2,980
Pension scheme contribution	**12**	12
Share-based payments expenses	**2,155**	196
	5,321	3,188

Note: Further details of pension scheme contribution and directors' emoluments are included in note 7 to the financial statements.

40. BANKING FACILITIES

During the year 2008, the Group was granted banking facilities aggregating to approximately HK$169,587,337 (2007: HK$63,830,000). A new bank loan amounting to HK$21,891,000 was granted to a subsidiary of the Company in February 2009, which is secured by the investment property *(note 14)*.

41. NON-CASH TRANSACTIONS

The consideration for acquisition of 100% interests in Bestjoy was partly settled by the Company's issue of 130,000,000 ordinary shares at HK$0.43 per share during the year, totalling HK$55,900,000 and HK$64,349,829 by releasing the loans (Notes 26 & 37).

42. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the statement at financial position date that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

(i) Impairment of property, plant and equipment and land lease premium

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(ii) Estimated fair value of investment property

The investment property was revalued at the statement of financial position date on market value existing use basis by independent qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each statement of financial position date.

42. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

a) Key sources of estimation uncertainty *(continued)*

(iii) Impairment of receivables

The Group maintains impairment allowance for doubtful accounts based upon evaluation of the recoverability of the accounts receivables and other receivables, where applicable, at each statement of financial position date. The estimates are based on the aging of the accounts receivables and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

(iv) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and an estimated discount rate in order to calculate the present value.

(v) Estimated fair value of available-for-sale financial assets

The fair value of financial instruments in active markets (such as trading securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the Group is the closing bid price at the statement of financial position date.

The fair value of financial instruments that are not traded in active market is determined based on available recent market information such as most recent market transaction price with third parties and the latest available financial information existing at each statement of financial position date.

(vi) Write down of inventories

The management of the Group reviews its inventories at each statement of financial position date and write-down inventories to net realisable value. Management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each statement of financial position date and make allowance for obsolete items.

42. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

a) Key sources of estimation uncertainty *(continued)*

(vii) Recognition of deferred tax assets

The recognition of deferred tax assets requires formal assessment by the Group of the future profitability of related operations. In making this judgement, the Group evaluates, amongst other factors, the forecast financial performance, changes in operational and financing cashflows.

(viii) Acquired intangible assets

Acquired intangible assets are those that derive their value from trademarks and are amortised over their estimated useful lives. The valuation and estimated useful lives of trademarks is dependent on a number of assumptions and judgements, such as expected cash flows, customer attrition, and royalty rates, variations in which could produce different values and/or useful lives.

b) Critical accounting judgements in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the statement of financial position date. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

a) Financial risk factors

The Group's major financial instruments include cash and cash equivalents, equity investments, borrowings, trade receivable and trade payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and other price risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

a) Financial risk factors *(continued)*

(i) Credit risk

Credit risk arises mainly from the risk that counterparties defaulting on the terms of their agreements. The carrying amounts of cash and cash equivalents, pledged deposits, loan receivable and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. In addition, receivables balances are monitored on an ongoing basis, therefore, the Group's exposure to bad debts is not significant. The credit risk on balances of cash and cash equivalents and pledged deposits is low as these balances are placed with reputable financial institutions.

Further quantitative data in respect of the Group's exposure to credit risk arising from other receivables is disclosed in note 25 to the financial statements.

(ii) Liquidity risk

The Group is responsible for its own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demand, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a source of liquidity.

The following liquidity and interest rate risk tables set out the remaining contractual maturities at the statement of financial position date of the Group's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the statement of financial position date) and the earliest date the Group required to pay:

	2008				2007			
	Within 1 year or on demand $'000	**More than 1 year but less than 2 years $'000**	**Total contractual undiscounted cash flow $'000**	**Carrying amount $'000**	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	Total contractual undiscounted cash flow $'000	Carrying amount $'000
Unsecured bank loans	**173,759**	**–**	**173,759**	**169,587**	65,720	–	65,720	63,830
Accounts payable, other payables, deposits received and accruals	**827,804**	**–**	**827,804**	**827,804**	262,299	–	262,299	262,299
	1,001,563	**–**	**1,001,563**	**997,391**	328,019	–	328,019	326,129

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

a) Financial risk factors *(continued)*

(iii) Interest rate risk

The company is exposed to cash flow interest rate risk in relation to variable-rate borrowings (see Note 32 for details of these borrowings). It is the Company's policy to keep its borrowings at Benchmark Borrowing Rate of the People's Bank of China of interests so as to minimize the fair value interest rate risk.

The company's exposures to interest rate risk on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The company's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from the company's RMB borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the statement of financial position date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the statement of financial position date was outstanding for the whole year.

A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Interest rate profile

The following table details the interest rate of the Group's borrowings at each of the statement of financial position date:

	As at 31 December	
	2008	2007
	HK$'000	HK$'000
Variable rate borrowings:		
Unsecured bank loans and other borrowings	**169,587**	63,830

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the company's profit for the year ended 31 December 2008 would decrease/increase by RMB1,651,000 (2007: Nil). This is mainly attributable to the company's exposure to interest rates on its variable-rate bank borrowings.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

a) Financial risk factors *(continued)*

(iv) Currency risk

Presently, there is no hedging policy with respect to the Group's foreign exchange exposure. The Group's transactional currency is mainly RMB as substantially most of the turnover is in RMB.

Considering the gradual appreciation of RMB against Hong Kong dollars which is expected to continue, the management is of the view that the currency risk is not significant.

i) Exposure to currency risk

The following table details the Group's exposure at the statement of financial position date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	Group	
	2008	2007
	RMB'000	RMB'000
Property, plant and equipment	**56,424**	24,477
Investment property	**51,260**	–
Long term lease payment	**7,599**	–
Inventories	**194,160**	64,647
Accounts receivable	**232**	–
Other receivables, deposits and prepayments	**286,772**	135,375
Cash and cash equivalents	**478,736**	145,810
Accounts payable	**(404,560)**	(157,788)
Other payables, deposits received and accruals	**(302,934)**	(85,685)
Tax payable	**(730)**	(1,162)
Short term bank loans – unsecured	**(150,000)**	(60,000)
Overall exposure arising from recognised assets and liabilities	**216,959**	65,674

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

a) Financial risk factors *(continued)*

(iv) Currency risk (continued)

ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rate to which the Group has significant exposure at the statement of financial position date.

	2008		2007	
	Increase/ (decrease) in foreign exchange rate	**Effect on profit after tax and retained profits HK$'000**	Increase/ (decrease) in foreign exchange rate	Effect on profit after tax and retained profits HK$'000
RMB	**5%**	**4,398**	5%	406
	(5)%	**(4,398)**	(5)%	(406)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the statement of financial position date and had been applied to the Group's exposure to currency risk for non derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rate over the period until the next annual statement of financial position date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group's entities profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollar at the exchange rate ruling at the statement of financial position date for presentation purposes. The analysis is performed on the same basis for 2007.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

a) Financial risk factors *(continued)*

(v) Fair values

The fair values of cash and cash equivalents, bank deposits, debtors, other receivables, accounts and other payables are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair value of financial assets traded on active liquid markets is determined with reference to listed market prices. The carrying amounts of bank loans approximate its fair values.

b) Capital risk management

The Group's objectives when managing capital are to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate.

The Group monitors capital on the basis of the debt-to-equity ratio, which is calculated as net debt divided by total equity. Total equity is calculated as interest-bearing bank loans less cash and cash equivalents. Total equity represents equity attributable to the equity holders of the Group. The debt-and-equity analysis of the Company and the Group at 31 December 2007 and 31 December 2008 are as follows:

	Group		**Company**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest-bearing bank loans	**169,587**	63,830	**–**	–
Less: Cash and cash equivalents	**(550,385)**	(252,288)	**(7,346)**	(37,752)
	(380,798)	(188,458)	**(7,346)**	(37,752)
Total equity	**781,787**	387,732	**562,086**	327,883

As at 31 December 2007 and 31 December 2008, both the Group and the Company had no net debt. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

c) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

(i) Listed securities

Fair value is based on listed market price at the statement of financial position date without any deduction for transaction costs.

(ii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

44. ULTIMATE CONTROLLING PARTY

The directors regard Mr. Cheung Siu Lam through his direct shareholding in the Company as being the ultimate controlling party.

45. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's change in presentation.

Summary Financial Information

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

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Turnover	**1,805,881**	775,012	431,037	403,815	140,953
Revenue	**1,777,062**	662,288	392,413	316,246	140,953
Profit/(loss) for the year	**255,874**	6,317	2,315	(23,251)	11,822
Attributable to:					
Equity holders of the Company	**247,686**	6,330	2,316	(23,251)	11,822
Non controlling interest	**8,188**	(13)	(1)	–	–
	255,847	6,317	2,315	(23,251)	11,822

	As at 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Total assets	**1,821,954**	715,097	555,185	313,177	362,120
Total liabilities	**(1,040,167)**	(327,365)	(364,803)	(139,500)	(169,726)
Non-controlling interest	**(87,647)**	(9,710)	(9,723)	–	–
Balance of total equity attributable to equity holders of the Company	**694,140**	378,022	180,659	173,677	192,394