



# K.P.I. COMPANY LIMITED

Interim Report 2009

(Stock Code : 605)



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## 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

### AUDITORS

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 Wang Jian Sheng  
Mr Chan Chun Keung  
Mr Tsang Kwok Wai

### PRINCIPAL BANKERS

Bank of China  
Bank of Communications  
China Merchants Bank

### 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

### INVESTORS AND MEDIA RELATION

New Point Financial Communications Limited

### STOCK CODE: 605

### WEBSITE

[www.kpi.com.hk](http://www.kpi.com.hk)

## FINANCIAL HIGHLIGHTS

The Board of Directors (the “Board”) of K.P.I Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2009 (the “Reporting Period”) together with the comparative figures.

- Turnover for the Reporting Period was approximately HK\$1,049.1 million, which represents an increase of approximately 19.9%;
- Gross profit for the Reporting Period was approximately HK\$110.0 million, which represents an increase of approximately 26.7%; and
- Net profit attributable to equity holders of the Company for the Reporting Period increased to approximately HK\$18.7 million.

## MANAGEMENT DISCUSSION AND ANALYSIS

Despite the challenging operating environment in the first half of the year 2009, the Group continued to achieve solid and encouraging growth. Turnover for the Reporting Period increased to HK\$1,049.1 million, representing a growth of 19.9% from the same period of last year. Profit from operations for the Reporting Period increased to HK\$34.5 million and profit attributable to the owners of the company increased by 338.5% to HK\$18.7 million.

During the Reporting Period, the Group opened one new hypermarket store in Shanghai and disposed of one store in Changchun to another major retail operator. In Beijing, the number of convenience stores reached about 150.

Hypermarket in Shanghai is operated in two different models, namely, the super store and the neighborhood centre, both stressing a personal touch with contemporary ambience for shoppers. The Group is planning to build more high-end neighborhood centres which emphasis on imported products to deal with the ever increasing demand for quality and premium goods.

The Group plans to maintain a normal rate of opening 1 to 2 store(s) in a year, and continues to improve and boost the profitability of existing stores. As to the hypermarket business in Shanghai, GMS's strategy is to deepen the transformation of the stores for differentiation, establish special zones such as livelihood houses and beauty center, in order to build the Company's unique image and features. Merchandise mix is adjusted to emphasis on our belief in "Life of beauty, health and convenience". In addition, the Group will enhance the ambience of our stores, enabling customers to enjoy the best shopping experience. The raw and fresh foods operation will develop into a stronger and more specialized model, taking advantage of economy of scale and reservation of supplier resources. The Group will also offer special commodities, imported foods and wines to attract the high-end group of customers to shop in our stores. We will establish supply chain bases for our core raw and fresh commodities under the original brand names, so as to increase the variety and availability of our commodities.



The Group has introduced foreign management systems to the convenience chain stores in Beijing and successfully implanted the management concept of convenience stores in various communities in Beijing. In terms of scale, Hi-24 currently ranks the largest 24-hour convenience store operator in Beijing. For some newly-opened stores, sales revenue can reach RMB15,000 per day on holidays or on weekends. The number of our directly-operated stores this year is expected to reach 190 to 200. Along with the rapid growth, the Group will impose stringent controls on costs and strengthen staff training to improve operational efficiency.

In addition to selling general merchandise, Hi-24 convenience stores also provide services for community residents, such as ATMs, utility charge collection, tickets agency and various repair services. The strategy of Hi-24 convenience stores focuses on integrated promotion of fast food service, formulation of standardized operation procedure and strengthening of internal control as well as speeding up in the development of franchised stores. The Group expects convenience stores to have broader room for development in Beijing, and will increase the number of our convenience stores to 500 within 3 to 5 years.

Capturing opportunities is one of the major factors for success in well-prepared companies. The Company is confident about opportunities in the retail industry in the PRC, in particular inestimable chances in the Shanghai market brought by Shanghai World Expo 2010. With the continuous growth of China's economy, the Group is also considering speeding up the development of its retail business.

## Financial Review

### *Turnover and Net Profit*

During the Reporting Period, the Group's turnover reached approximately HK\$1,049,131,000, and net profit after tax attributable to equity holders of the Company was approximately HK\$18,675,000. Gross margin and net margin of the Group were about 10.5% and 1.8% respectively. Selling and administrative expenses were, in aggregate, approximately HK\$233,207,000, approximately 22.2% of turnover. Staff related costs and rental expenses were about HK\$71,471,000 and HK\$53,780,000 respectively, approximately 6.8% and 5.1% of turnover.

### *Capital Structure, Liquidity and Financial Resources*

As at 30 June 2009, the Group had non-current assets amounting to approximately HK\$705,903,000 (31 December 2008: HK\$699,807,000). Non-current assets mainly include property, plant and equipment of approximately HK\$63,063,000 (31 December 2008: HK\$65,203,000), goodwill and intangible assets of approximately HK\$541,927,000 (31 December 2008: HK\$545,403,000), investment property of approximately HK\$61,351,000 (31 December 2008: HK\$57,954,000), available-for-sales investments of approximately HK\$30,251,000 (31 December 2008: HK\$21,774,000). As at 30 June 2009, the Group had current assets amounting to approximately HK\$1,089,437,000 (31 December 2008: HK\$1,122,147,000). Current assets mainly comprised cash and bank balances of approximately HK\$388,682,000 (31 December 2008: HK\$550,385,000), inventories of approximately HK\$333,737,000 (31 December 2008: HK\$219,514,000), other receivables, deposits and prepayment of approximately HK\$358,706,000 (31 December 2008: HK\$351,058,000), financial assets at fair value through profit or loss of approximately HK\$7,331,000 (31 December 2008: HK\$Nil). As at 30 June 2009, the Group had current liabilities amounting to approximately HK\$932,269,000 (31 December 2008: HK\$998,216,000). Current liabilities mainly comprised unsecured short term bank loans of approximately HK\$197,860,000 (31 December 2008: HK\$169,587,000), accounts payable of approximately HK\$384,352,000 (31 December 2008: HK\$457,387,000), other payables and accruals of approximately HK\$348,169,000 (31 December 2008: HK\$370,417,000). The Group applied sound and flexible financial management, and has financed its business development by a combination of internal resources, equity financing and bank borrowings. Current ratio, defined as current assets over current liabilities, was 1.17. The Group monitors capital on the basis of the debt-to-equity ratio, which is calculated as net debt divided by total equity. As at 30 June 2009, both the Group and the Company had no net debt.

## Management of Financial Risk Factors

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. These risks are reviewed periodically to ensure there is no significant impact on the Group's financial performance.

### (i) Foreign Exchange Risk

The Group operates 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 and HK\$. Any significant exchange rate fluctuations of foreign currencies against RMB may have financial impact on the Group.

### (ii) Interest Rate Risk

The Group's 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 30 June 2009 and 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 loans 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 this unaudited consolidated condensed financial information. 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 the 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 Reporting Period, the Group did not use any financial instrument for hedging purpose and the Group did not have any hedging instrument outstanding in the six months ended 30 June 2009.

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 net debt divided by total equity. Total equity is calculated as interest-bearing bank loans less cash and cash equivalents.

As at 30 June 2009, 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.

### **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.

### **Employees and Remuneration Policies**

As at 30 June 2009, the Group had approximately 4,400 employees in the mainland China and Hong Kong. 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 developing team spirit on an on-going basis. For the Reporting Period, total staff costs were about HK\$71,471,000. Competitive remuneration packages and performance-based bonuses are structured to commensurate with individual responsibilities, qualification, experience and performance.

### **Contingent Liabilities**

As at 30 June 2009, the Group has no significant contingent liabilities.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

		(Unaudited) For the six months ended 30 June	
		2009	2008
		HK\$'000	HK\$'000
	Note		
<b>Turnover</b>	3	<b>1,049,131</b>	875,190
Cost of sales		<b>(939,104)</b>	(788,323)
<b>Gross profit</b>		<b>110,027</b>	86,867
Fair value gain on investment property		<b>3,397</b>	11,196
Other revenue and other net income	3	<b>154,253</b>	107,540
Selling and distribution expenses		<b>(63,860)</b>	(47,815)
General and administrative expenses		<b>(169,347)</b>	(145,103)
<b>Profit from operations</b>	4	<b>34,470</b>	12,685
Finance costs		<b>(2,810)</b>	(2,947)
<b>Profit before taxation</b>		<b>31,660</b>	9,738
Income tax	5	<b>(1,814)</b>	(1,008)
<b>Profit for the period</b>		<b>29,846</b>	8,730
<b>Other comprehensive income:</b>			
Exchange differences on translating foreign operations		<b>847</b>	811
Gain on revaluation of available-for-sale financial assets		<b>8,660</b>	–
Transfer to statement of comprehensive income for disposal of available-for-sale financial assets		<b>(2)</b>	–
<b>Other comprehensive income for the period</b>		<b>9,505</b>	811
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>39,351</b>	9,541

		(Unaudited)	
		For the six months	
		ended 30 June	
		2009	2008
Note		HK\$'000	HK\$'000
<b>Profit attributable to:</b>			
	Owners of the parent	18,675	4,259
	Non-controlling interest	11,171	4,471
		<b>29,846</b>	<b>8,730</b>
<b>Total comprehensive income attributable to:</b>			
	Owners of the parent	28,180	5,070
	Non-controlling interest	11,171	4,471
		<b>39,351</b>	<b>9,541</b>
<b>Earnings per share (in currency unit)</b>			
	– Basic	6 <b>HK1.08 cents</b>	HK0.25 cents
	– Diluted	<b>HK1.08 cents</b>	HK0.25 cents
<b>Dividends</b>			
		15 <b>NIL</b>	NIL

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		<b>30 June 2009 (Unaudited) HK\$'000</b>	31 December 2008 (Audited) HK\$'000
	<i>Note</i>		
<b>Non-current assets</b>			
Property, plant and equipment		<b>63,063</b>	65,203
Land lease premium		<b>869</b>	882
Investment property	7	<b>61,351</b>	57,954
Intangible assets		<b>163,955</b>	167,431
Goodwill	8	<b>377,972</b>	377,972
Long term lease prepayment		<b>8,442</b>	8,591
Available-for-sale investments		<b>30,251</b>	21,774
		<b>705,903</b>	699,807
<b>Current assets</b>			
Land lease premium		<b>23</b>	23
Accounts receivable	9	<b>391</b>	261
Financial assets at fair value through profit or loss		<b>7,331</b>	–
Inventories		<b>333,737</b>	219,514
Other receivables, deposits and prepayments		<b>358,706</b>	351,058
Tax recoverable		<b>567</b>	567
Pledged deposits		<b>–</b>	339
Cash and cash equivalents		<b>388,682</b>	550,385
		<b>1,089,437</b>	1,122,147
<b>Current liabilities</b>			
Tax payable		<b>1,888</b>	825
Accounts payable	10	<b>384,352</b>	457,387
Other payables and accruals		<b>348,169</b>	370,417
Short term bank loans – unsecured	11	<b>197,860</b>	169,587
		<b>932,269</b>	998,216
<b>Net current assets</b>		<b>157,168</b>	123,931
<b>Total assets less current liabilities</b>		<b>863,071</b>	823,738

	<i>Note</i>	<b>30 June 2009 (Unaudited) HK\$'000</b>	31 December 2008 (Audited) HK\$'000
<b>Non-current liabilities</b>			
Deferred tax liabilities	5	<b>41,933</b>	41,951
<b>NET ASSETS</b>		<b>821,138</b>	781,787
<b>Capital and reserves</b>			
Share capital	12	<b>172,590</b>	172,590
Reserves		<b>549,730</b>	521,550
<b>Total equity attributable to equity holders of the Company</b>		<b>722,320</b>	694,140
<b>Non-controlling interest</b>		<b>98,818</b>	87,647
<b>SHAREHOLDERS' FUNDS</b>		<b>821,138</b>	781,787
<b>SHAREHOLDERS' FUNDS PER SHARE</b>		<b>HK47.58cents</b>	HK45.30cents



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Share-based compensation reserve	Exchange fluctuation reserve	Fair value reserve	Statutory surplus reserve	(Accumulated losses)/ retained earnings	Attributable to owner of the parent	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Balance at 1 January 2008 (Audited)</b>	159,590	244,522	2,153	5,048	-	1,393	(34,684)	378,022	9,710	387,732
<b>Changes in equity for the six months ended 30 June 2008:</b>										
Exchange adjustment				811				811		811
Issue of new shares	13,000	45,500						58,500		58,500
Issuing expenses		(60)						(60)		(60)
Employee share option benefits			2,723					2,723		2,723
Acquisition of a subsidiary								-	16,903	16,903
Total comprehensive income attributable to shareholders							4,259	4,259	4,471	8,730
<b>Balance at 30 June 2008 and 1 July 2008</b>	<u>172,590</u>	<u>289,962</u>	<u>4,876</u>	<u>5,859</u>	<u>-</u>	<u>1,393</u>	<u>(30,425)</u>	<u>444,255</u>	<u>31,084</u>	<u>475,339</u>
<b>Changes in equity for the six months ended 31 December 2008:</b>										
Exchange adjustment				5,150				5,150		5,150
Adjustment of issue of new shares		(2,600)						(2,600)		(2,600)
Acquisition of a subsidiary						(1,087)		(1,087)	52,846	51,759
Employee share option benefits			12,038					12,038		12,038
Fair value adjustment for AFS financial assets					(7,043)			(7,043)		(7,043)
Transfer						441	(441)	-		-
Total comprehensive income attributable to shareholders							243,427	243,427	3,717	247,144
<b>Balance at 31 December 2008</b>	<u>172,590</u>	<u>287,362</u>	<u>16,914</u>	<u>11,009</u>	<u>(7,043)</u>	<u>747</u>	<u>212,561</u>	<u>694,140</u>	<u>87,647</u>	<u>781,787</u>
<b>Balance at 1 January 2009 (Audited)</b>	172,590	287,362	16,914	11,009	(7,043)	747	212,561	694,140	87,647	781,787
<b>Changes in equity for the six months ended 30 June 2009:</b>										
Exchange adjustment				847				847		847
Fair value adjustment for AFS financial assets (net)					8,658			8,658		8,658
Total comprehensive income attributable to shareholders							18,675	18,675	11,171	29,846
<b>Balance at 30 June 2009</b>	<u>172,590</u>	<u>287,362</u>	<u>16,914</u>	<u>11,856</u>	<u>1,615</u>	<u>747</u>	<u>231,236</u>	<u>722,320</u>	<u>98,818</u>	<u>821,138</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	(Unaudited)	
	Six months ended 30 June	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash outflow from operating activities	<b>(159,546)</b>	(99,837)
Net cash (outflow)/inflow from investing activities	<b>(26,999)</b>	192,432
Net cash inflow/(outflow) from financing activities	<b>25,213</b>	(30,936)
(Decrease)/Increase in cash and cash equivalents	<b>(161,332)</b>	61,659
Effect of foreign exchange rate changes	<b>(710)</b>	–
Cash and cash equivalents at beginning of period	<b>550,724</b>	252,288
Cash and cash equivalents at end of period	<b>388,682</b>	313,947
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<b>388,682</b>	276,243
Time deposits	–	37,704
	<b>388,682</b>	313,947

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The Group is principally engaged in the retail business in the PRC including hypermarket and convenience chain stores.

The unaudited condensed consolidated interim financial information for the Reporting Period are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2008, except for the adoption of the following new and revised Hong Kong Accounting Standards (“HKAS”) and Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that affect the Group for the current period’s financial statements. Where applicable, the 2008 comparatives have been amended as required.

		Effective for accounting periods beginning on or after
HKAS 1 (Revised)	Presentation of Financial Statements	1st January 2009
HKAS 23 (Revised)	Borrowing Costs	1st January 2009
Amendments to HKFRS 1 and HKAS 27	Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1st January 2009
Amendments to HKFRS 7	Financial instruments: Disclosures – Improving disclosures about financial instruments	1st January 2009
HKFRS 8	Operating Segments	1st January 2009
HK (IFRIC) Interpretation 13	Customer Loyalty Programmes	1st July 2008

Annual improvements to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants in October 2008

The adoption of such standards or interpretations does not result in substantial changes to the Group’s accounting policies and has no significant effect on the results reported for the first half of 2009. However, as a result of the adoption of HKAS 1 (revised) “Presentation of Financial Statements”, changes in equity arising from transactions with shareholders in their capacity as shareholders are presented separately from all other income and expenses in a revised statement of changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

**1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES** *(continued)*

HKFRS 8 "Operating Segments" replaces HKAS 14 "Segment Reporting". It requires a "management approach" under which information is presented on the same basis as that used for internal reporting purposes. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's chief operating decision maker.

**2. SEGMENT INFORMATION**

The Group is principally engaged in the hypermarket and convenience store chain operation in the PRC. As the Company's chief operating decision maker makes decision about resources allocation and performance assessment based on the entity-wide financial information, there is only one single reportable segment for the Company.

**3. TURNOVER, OTHER REVENUE AND OTHER INCOME**

Turnover represents the retailing operations in hypermarket and convenience chain store and sales of merchandise during the Reporting Period.

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

	<b>(Unaudited)</b> <b>For the six months</b> <b>ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover		
Sales of merchandise	<b>309</b>	–
Hypermarket and convenience chain store operation	<b>1,048,822</b>	875,190
	<b>1,049,131</b>	875,190
Other revenue		
Dividend income	<b>164</b>	204
Bank interest income	<b>155</b>	568
Other interest income	<b>858</b>	1,975
Income from government subsidies	<b>600</b>	1,131
Gross rental income from investment property	<b>3,337</b>	3,258
Gross rental income from leasing of shop premises	<b>20,143</b>	21,776
Promotion and store display income from suppliers	<b>113,517</b>	83,956
Other	<b>1,249</b>	55
Reverse impairment loss on other receivables	<b>12,000</b>	–
Other net income		
Gain/(loss) on sales of marketable securities	<b>1,012</b>	(1,048)
Gain/(loss) on realisation of share options	<b>199</b>	(991)
Exchange gain, net	<b>–</b>	4
Change in fair value of financial assets at fair value through profit or loss, net	<b>1,019</b>	(3,348)
	<b>154,253</b>	107,540

#### 4. PROFIT FROM OPERATIONS

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

	(Unaudited)	
	For the six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Auditor's remuneration	677	970
Amortisation of land lease premium	12	12
Amortisation of intangible assets	3,476	1,513
Cost of inventories sold	939,104	788,323
Depreciation	12,738	16,980
Dividend income from investments at fair value through profit or loss/available-for-sales investments	(164)	(204)
(Gain)/loss on realisation of share options	(199)	991
Operating lease payments	53,780	41,498
Staff cost	71,471	52,778
Staff-based payment expenses	–	2,684
Change in fair value of financial assets at fair value through profit or loss, net	(1,019)	3,348
Increase in fair value of investment properties	(3,397)	(11,196)
Loss on disposal of property, plant and equipment	3,560	–
Bank interest income	(155)	(568)
Other interest income	(858)	(1,975)
Exchange differences, net	30	(4)

#### 5. INCOME TAX

	(Unaudited)	
	For the six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Current Taxation		
Hong Kong profits tax	–	–
PRC enterprise income tax	1,831	1,008
Deferred taxation	(17)	–
Tax charge for the period	1,814	1,008



5. **INCOME TAX** (continued)

Hong Kong profits tax has been provided for at the rate of 16.5% (2008: 16.5%) on the estimated net assessable profits for the Reporting Period.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2008: 25%).

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.

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

	<b>Identifiable assets-trademark HK\$'000</b>	<b>Revaluation of investment property HK\$'000</b>	<b>Total HK\$'000</b>
Deferred tax arising from:			
At 1 January 2009	41,748	203	41,951
(Credited)/charged to profit or loss	(867)	849	(18)
<b>At 30 June 2009</b>	<b>40,881</b>	<b>1,052</b>	<b>41,933</b>

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\$20,303,000 (31 December 2008: HK\$19,484,000) due to unpredictability to future profit streams. The unrecognised tax losses, mainly arising from companies incorporated in Hong Kong, can be carried forward indefinitely.

## 6. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data:

	<b>(Unaudited)</b> <b>For the six months</b> <b>ended 30 June</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	<b>18,675</b>	4,259
	<b>Number of shares</b>	
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,725,902,336</b>	1,704,473,765
Effect of dilution – weighted average number of ordinary shares:		
Share options	–	5,963,236
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,725,902,336</b>	1,710,437,001

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

## 7. INVESTMENT PROPERTY

	<i>HK\$'000</i>
At valuation	
At 1 January 2009 (audited)	57,954
Acquisition	–
Increase in fair value	3,397
At 30 June 2009 (unaudited)	<b>61,351</b>

**8. GOODWILL**

	<i>HK\$'000</i>
Cost	
At 1 January 2009 (audited)	379,818
At 30 June 2009 (unaudited)	379,818
Accumulated impairment	
At 1 January and 30 June 2009	1,846
Carrying amount	
At 30 June 2009 (unaudited)	377,972

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

	<b>30 June 2009 (Unaudited) HK\$'000</b>	31 December 2008 (Audited) HK\$'000
<b>Trading of chemical fertiliser</b>		
Balance brought forward	<b>1,846</b>	1,846
Less: Impairment	<b>(1,846)</b>	(1,846)
Carrying amount carried forward	–	–
<b>Hypermarket chain operations</b>	<b>377,972</b>	377,972

**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% (2008: 6.75%) has been used for the value-in-use calculation.

**8. GOODWILL** (continued)

Key assumptions used for value-in-use calculations:

	<b>Group</b>	
	<b>2009</b>	2008
	%	%
Gross margin	<b>9.98</b>	9.98
Growth rate	<b>7.5</b>	7.5
Discount rate	<b>6.75</b>	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 (2008: Nil).

**9. ACCOUNTS RECEIVABLE**

The ageing analysis of the Group's accounts receivable is analysed as follows:

	<b>30 June</b>	31 December
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Outstanding balances with ages:		
Due within 1 month or on demand	–	–
Due after 1 month but within 3 months	<b>391</b>	261
	<b>391</b>	261

Note:

The carrying amounts of accounts receivable approximate to their fair value due to their short maturity term.

**10. ACCOUNTS PAYABLE**

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

	<b>30 June 2009 (Unaudited) HK\$'000</b>	31 December 2008 (Audited) HK\$'000
Outstanding balances with ages:		
Due within 1 month or on demand	<b>213,885</b>	222,075
Due after 1 month but within 3 months	<b>170,467</b>	235,312
	<b>384,352</b>	457,387

Note:

The carrying amounts of accounts payable approximate to their fair values due to their short maturity term.

**11. SHORT TERM BANK LOANS – UNSECURED**

All the bank loans are unsecured and were repayable as follows:

	<b>30 June 2009 (Unaudited) HK\$'000</b>	31 December 2008 (Audited) HK\$'000
Repayable within 1 year	<b>197,860</b>	169,587

The Group's bank borrowings are unsecured and denominated in Renminbi. The bank loans bear annual interest rates ranging from 6.242% to 6.876%. The bank loans are repayable within three to twelve months. The fair value of the Group's bank loans as at 30 June 2009 approximated their corresponding carrying amounts.



## 12. SHARE CAPITAL

	30 June 2009 (Unaudited)		31 December 2008 (Audited)	
	No. of shares	HK\$'000	No. of shares	HK\$'000
<i>Authorised</i>				
Ordinary share of HK\$0.10 each	<b>4,000,000,000</b>	<b>400,000</b>	4,000,000,000	400,000
<i>Issued and fully paid</i>				
At 31 December 2008 and 1 January 2009	<b>1,725,902,336</b>	<b>172,590</b>		
At 30 June 2009	<b>1,725,902,336</b>	<b>172,590</b>		

## 13. OPERATING LEASE COMMITMENT

## (a) As lessor

The Group leases its investment property, shop premises of hypermarket chain operation 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 hypermarket chain operation 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 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:

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Within one year	<b>29,831</b>	29,324
In the second to fifth years, inclusive	<b>62,659</b>	63,156
After the fifth year	<b>17,703</b>	22,415
	<b>110,193</b>	114,895

**13. OPERATING LEASE COMMITMENT** (continued)

(b) As lessee

The Group leases certain of its office properties, director's quarter and shop premises of hypermarket chain operation 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:

	<b>30 June 2009 (Unaudited) HK\$'000</b>	31 December 2008 (Audited) HK\$'000
Within one year	<b>91,190</b>	88,377
In the second to fifth years, inclusive	<b>337,929</b>	319,652
After the fifth year	<b>477,251</b>	432,667
	<b>906,370</b>	840,696

**14. RELATED PARTY TRANSACTIONS**

For the six months period, the Group had the following significant transactions with related parties:

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

	<i>Note</i>	<b>(Unaudited) For the six months ended 30 June 2009 HK\$'000</b>	2008 HK\$'000
Rental expenses to a company controlled by directors	<i>(i)</i>	<b>498</b>	498

Note:

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

**14. RELATED PARTY TRANSACTIONS** *(continued)**(b) Compensation of key management personnel of the Group*

	<b>(Unaudited)</b>	
	<b>For the six months</b>	
	<b>ended 30 June</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Salaries, allowances and other benefits	<b>1,445</b>	1,445
Pension scheme contribution	<b>6</b>	6
Share-based payments expenses	<b>–</b>	–
	<b>1,451</b>	1,451

**15. INTERIM DIVIDEND**

The Directors do not recommend the payment of any interim dividend for the Reporting Period (2008: Nil).

**16. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL STATEMENTS**

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of the Company on 20 August 2009.

## OTHER INFORMATION

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2009, the following Directors had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

Long positions in shares and underlying shares of the Company

Name of Director	Number of issued shares and underlying shares held (long position <sup>(4)</sup> )	Nature of Interest			Percentage of the issued share capital of the Company
		Beneficial (Note 3)	Corporate	Family	
Cheung Siu Lam (Note 1)	691,967,796	470,044,240	86,400,000	135,523,556	40.09%
Lo Wan (Note 2)	691,967,796	135,523,556	-	556,444,240	40.09%
Chan Yuk Ming	20,000,000	20,000,000	-	-	1.16%

Notes:

- (1) By virtue of SFO, Mr. Cheung Siu Lam is deemed to be interested in 135,523,556 shares held by Ms. Lo Wan and 86,400,000 shares by Arbalice Holdings Limited which is a company beneficially owned as to 60% by Mr. Cheung Siu Lam, 27.5% by Ms. Lo Wan and 12.5% by Zhang Wei, a third party independent of, and not connected with Mr. Cheung Siu Lam, the Company and its connected persons as defined in the Listing rules.
- (2) By virtue of SFO, Ms. Lo Wan is deemed to be interested in 470,044,240 shares held by Mr. Cheung Siu Lam and 86,400,000 shares held by Mr. Cheung Siu Lam through his interest in Arbalice Holdings Limited.
- (3) The beneficial interest of each of Cheung Siu Lam, Lo Wan and Chan Yuk Ming includes 10,000,000 underlying shares from holding share option exercisable during the period between 4 October 2007 and 3 October 2017 at an exercise price of HK\$0.479 per share.

## 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 nor the chief executives of the Company or any of their associates had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Listing Rules, to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

## PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2009, so far is known to the Directors, the following persons (not being a Director or a chief executive of the Company) had or were deemed to have interests or short positions in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO, or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	Capacity	Number of issued Shares held (long position <sup>(L)</sup> / short position <sup>(S)</sup> )	Percentage of the issued share capital of the Company
Arbalice Holdings Limited	Beneficial Owner	86,400,000 <sup>(L)</sup> (Note1)	5.00%
ARC Capital Holdings Limited	Beneficial Owner	290,625,000 <sup>(L)</sup> (Note2)	16.84%



Notes:

- (1) The above interest in the name of Arbalice Holdings Limited was also disclosed as interest of Mr. Cheung Siu Lam in section of "Directors' Interests and Short Positions in the Securities of the Company and its Associated Corporations".
- (2) ARC Capital Holdings Limited (the chairman and a director of which is Mr. Liu Hui who is a non-executive Director) 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 and under the section headed "Directors' Interests and Short Positions in the Securities of the Company and its Associated Corporations", the Directors were not aware of any other person who had, or was deemed to have, interests or short positions in the shares or underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which was required, pursuant to section 336 of the SFO, to be entered in the register referred therein.

## SHARE OPTION

The Company adopted a new share option scheme on 7 June 2004 (the "New Scheme") whereby the directors of the Company are authorised, at their discretion, to invite any eligible employee, executive directors, non-executive directors and independent non-executive directors, any shareholder of any member of the Group, any supplier and customer of the Group and any technical, financial and legal professional adviser of the Group, to take up options to subscribe for shares of the Company.

During the Reporting Period, no share options were granted. A summary of the movement of the share options granted under the New Scheme are as follows:

Director	Date of offer	Exercise price	Outstanding at 1.1.2009	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2009	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 04.10.07	0.126 0.479	19,100,000 38,500,000	- -	- -	- -	19,100,000 38,500,000	10.01.05 - 06.06.14 04.10.07 - 03.10.17	0.126 0.460

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

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

## **CORPORATE GOVERNANCE**

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the Reporting Period, except for code provision A.2.1:

### **CODE PROVISION A.2.1**

Mr Cheung Siu Lam, acts as chairman of the Company, is also responsible for overseeing the general operations of the Group. The Company does not separate the roles of chairman and chief executive officer and Mr Cheung currently holds both position, the Board is in the opinion that the combination of the roles of chairman and chief executive officer can ensure the efficient formulation and implementation of the Company's strategies to identify and follow up on business opportunities. This constitutes a deviation from code provision A.2.1 of the Code.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted its own Code of Conduct, which laid down terms no less exacting than those set out in Appendix 10 of the Listing Rules, regarding directors' transactions in securities of the Company. The Company has made specific enquiry of all the directors and the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers throughout the Reporting Period.

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.

## AUDIT COMMITTEE

The Audit Committee, which comprises three independent non-executive directors, has reviewed the interim results for six months ended 30 June 2009. The Audit Committee considered that the interim financial report for the Reporting Period is in compliance with the relevant financial reporting standards, requirement on Listing Rules and Laws of Hong Kong, and the Company has made appropriate disclosures thereof. The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items 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 reports to the Board on any material issues and makes recommendations to the Board.

On behalf of the Board

**Cheung Siu Lam**

*Chairman and Chief Executive Officer*

Hong Kong, 20 August 2009