# K.P.I. COMPANY LIMITED

(Stock Code : 605)

ANNUAL REPORT 2009

# 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

## *Dedicate to Become the Most Influential Lifestyle Consumer Goods Distributor through Merger and Acquisition*

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 2009. In 2009, the Group delivered a satisfactory result. Revenue of the Group for the year ended 31 December 2009 increased by 16.7% to approximately HK$2,073.1 million. The consolidated profit attributable to owners of the Company was approximately HK$26.3 million and the basic earnings per share was HK1.524 cents.

The Company has been investing and engaging in retail business in Shanghai and Beijing, and transformed to be one of the successful retail operators in the PRC. In particular, after the Company has acquired the controlling interests in Hualian GMS in 2008, the Group's gross profit for 2009 rose by 40.5% and the revenue from Hualian GMS increased by 7.3% year-on-year to approximately HK$1,904.5 million. This fully demonstrates the dedication made by the Company and our management effort to achieve outstanding results.


However, since the competition of retail business in Shanghai is very intense, the sales per square metre of the Shanghai hypermarket chains recorded a significant decrease in 2009 and the number of hypermarket in Shanghai has become saturated. Merger, acquisition and consolidation will become the trend of expansion. On 11 August 2009, the Group entered into the Letter of Intent with Shanghai XinMeng Investment Company Limited and was granted a pre-emptive right to purchase a chained supermarket operator with over 150 retail outlets in the PRC. There was no further negotiation or progress regarding the possible acquisition afterwards, the parties to the Letter of Intent then entered into a cancellation agreement in January 2010. The Company has been active and made much efforts in looking for good companies for merger and acquisition but this cannot be realized due to several reasons.

After cautious strategic analysis, the Board has concluded to sell 60% equity interests of Hualian GMS to Bailian Group. Bailian Group is the largest retail operator by volume in the PRC and possesses a leading competitive edge in the PRC retail market, especially in Shanghai. The Company has established a strategic alliance with Bailian Group after the transaction, and would strengthen interaction in the upcoming operation. The Board believed the above-mentioned cooperation would contribute a better return to the Company.

If the transaction is approved by the shareholders, the Company would devotes more resources in its convenience stores business in Beijing. Currently there was about 170 Hi-24 convenience stores operating around the clock in Beijing, which makes it the largest convenience chain store in terms of number of outlets in the city. During the year under review, the Company reinforced fast food service, and launch a wide range of value-added services to create a better shopping experience for customers. According to the information provided by AC Nielsen, an international well-known market research organization, Hi-24 was one of the most influential and brand value growth convenience store systems in Beijing. The Board considers to further speed up outlet expansion with a target of 250 outlets in 2010 and 300 outlets in 2011. This retail network provides a solid foundation for the Group to develop further businesses such as internet sales order, company's bulk purchase, gift selling, B2B electronic commerce and a next step to operate its self owned logistics, which possesses enormous sales potential and sales value. The Group will focus on strengthening the brand name and market leadership of Hi-24 convenience store in Beijing and will become a super lifestyle consumer goods distributor and city service provider in the PRC. Furthermore, the Group started a new business of providing short term financing services in the PRC in 2009. More resources will be deployed in this new business as the profitability level is very attractive. We will continue to explore opportunities through various business plans to maximize shareholders' value and return.

Like 2009, I believe 2010 will continue to be full of opportunities and challenges. The Group is actively seeking good investment opportunities to further broaden its revenue sources. Our success relies on the diligence of our professional team of management and staff. Our behalf of the Board, I would like to express my gratitude to all 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, 16 April 2010

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 2009.

## CORPORATE GOVERNANCE PRACTICES

The Board of the Company considers good corporate governance practices to be essential to the promotion of 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 as set out in the CG Code, save for the deviations from code provisions A.1.1, A.2.1 and A.5.1, which deviations 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 leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and 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 Board of the Company comprises the following directors:

**Executive directors:**

Cheung Siu Lam
*(Chairman and Chief Executive Officer)*
Chan Yuk Ming *(Vice Chairman)*
Lo Wan #

**Non-executive directors:**

Liu Hui

**Independent non-executive directors:**

Tsang Kwok Wai ♦+
Wang Jian Sheng ★+
Chan Chun Keung ★+

♦ *Audit Committee Chairman*
★ *Audit Committee Members*
# *Remuneration Committee Chairman*
+ *Remuneration Committee Members*

The list of directors (by category) is also disclosed in 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 21.

During the year ended 31 December 2009, 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 at 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 reviews 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 shall 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.

Mr Chan Yuk Ming and Mr Liu Hui 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 26 April 2010 contains detailed information of the directors standing for re-election.

## Training of Directors

Code provision A.5.1 stipulates that every newly appointed director of the issuer should receive a comprehensive, formal and tailored induction on his first appointment, and subsequently such briefing and professional development as is necessary to ensure that he has a proper understanding of operations and business of the issuer and his responsibilities under statute, common law, Listing Rules, applicable legal requirements and other regulatory requirements and the business/governance policies of the issuer.

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 advisers for providing 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 where 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 and regulatory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible for taking and keeping 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 final versions are open for directors' inspection.

The Company's Articles of Association contain 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*

Code provision A.1.1 stipulates that at least 4 regular Board meetings a year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication.

The Company does not announce its quarterly results and hence not consider the holding of quarterly meetings as necessary. The Board met two times during the year ended 31 December 2009 for approving the final results for the year ended 31 December 2008 and interim results for the period ended 30 June 2009.

The attendance records of each director at the Board meetings during the year ended 31 December 2009 are set out below:

| Name of Directors | Attendance/ Number of Meetings |
|---|---|
| Mr Cheung Siu Lam | 2/3 |
| Mr Chan Yuk Ming | 1/3 |
| Madam Lo Wan | 3/3 |
| Mr Chan Chun Keung | 2/3 |
| Mr Wang Jian Sheng | 1/3 |
| Mr Tsang Kwok Wai | 3/3 |
| Mr Liu Hui | 1/3 |

### Model Code for Securities Transactions

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Company 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 Company Code throughout the year ended 31 December 2009.

The Company has also 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: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that 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 laws 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 responsibilities 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 for the discharge of 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 2009 are set out on page 74 in note 7 to the financial statements.

### Remuneration Committee

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 with 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 determining 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 2009 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 2009.

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 statutory and regulatory requirements.

The Management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are 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 conducted a review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

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.

Greater China Corporate Consultancy & Services Limited has been engaged by the Company to issue the "Report on Internal Control Review 2009" (the "Report"). The Report covered factual findings of the Group:

a. Whether the Group's existing corporate governance policies and procedures complied with the Code on Corporate Governance Practices and its reporting requirements as established in Appendix 14 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 in 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 2009, the Board considered the internal controls system effective and adequate. Proper controls were in place for the recording of complete, accurate and timely accounting and management information. Preparation of financial statements was carried out in accordance with the generally accepted accounting principles, the Group's accounting polices 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. Regular reviews and audits were carried out to cover all material controls, including financial, operational, compliance controls and risk management functions.

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 oversees the internal control system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2008 and interim results and interim report for the six months ended 30 June 2009, the financial reporting and compliance procedures, internal control and risk management systems and processes, 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 2009 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 | 1/2 |
| Mr Wang Jian Sheng | 1/2 |

### 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 32.

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 | 950,000 |
| Non-audit service | |
| – Report for circular | 0 |
| Total | HK$950,000 |

## COMMUNICATION 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 shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

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


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

## OPERATING ENVIRONMENT

Due to the impact of the global financial crisis, the PRC economy continued with a declining trend in the first part of the year under review. However, economic statistics started to pick up in the second quarter of the year showing modest recovery and growth. Over the year, macro and microeconomic indicators showed a significant rebound. In 2009, the gross domestic product ("GDP") of the PRC recorded a year-on-year increase of 8.7%. Retail sales in the domestic market increased steadily despite a slowdown in economic growth. In 2009, total retail sales of consumer goods in cities reached 8.5 trillion yuan, recording a year-on-year increase of 15.5%. Nationwide retail sales grew 15.5 % year on year to 12.53 trillion yuan.

## BUSINESS REVIEW

Competition in the PRC retail business remains intense, generic expansion, merger and acquisition, reorganization and consolidation are expected to be the major channels accelerating the pace of expansion for the retail industry. The Group, likewise, plans to speed up the development of its retail business through mergers and acquisitions. On 11 August 2009, the Group entered into a letter of intent with Shanghai XinMeng Investment Company Limited（上海信盟投資有限公司）, pursuant to which the Group is granted a pre-emptive right for the possible acquisition of a supermarket chain in the PRC with over 150 retail outlets. However, as there was no further negotiation or progress regarding the possible acquisition, the parties to the letter of intent entered into a cancellation agreement, pursuant to which the letter of intent was terminated in January 2010. Though the acquisition of the supermarket chain is not proceeding, the Group is highly confident in the future and will continually look for good investment opportunities.

In response to business adversities under the financial tsunami, the Group adopted flexible measures to strengthen management and cost controls. Leveraging its competitive edge, the Group recorded satisfactory results for the year ended 31 December 2009. Revenue increased to 16.7% year-on-year to HK$2,073.1 million. Revenue on hypermarkets chain operation increased by 7.3% year-on-year to HK$1,904.5 million, while revenue of convenience stores chain operation amounted to about HK$165.0 million. The Group's net profit for the year amounted to approximately HK$26.3 million, representing a decrease to 89.4% as compared to last year. The decrease in net profit is due to net profit for the year 2008 included a non-recurring re-measurement gain on acquisition of an additional 20% in Hualian GMS Shopping Center Co., Ltd ("Hualian GMS").

The Group expanded its retail network in a steady yet positive manner, optimized inventory composition significantly and enhanced the quality of retail outlets substantially. Gross profit was about HK$249.2 million, a growth of approximately 40.5% from last year. During the year, the Group had committed tremendous efforts to convert our existing outlets into new operating models and open new convenience stores in Beijing. Sale of one renovated outlet has doubled as compared with that before renovation and thus help to brace the overall profitability of the Company. Currently, the Group's portfolio comprises about 190 retail outlets in Mainland China, of which 18 outlets are hypermarket format located in Shanghai and nearby provinces.



Looking ahead, the Chinese economy is maintaining stable growth and the outlook for the consumables market in China in the coming year remains positive. Despite uncertainty in the international economy, the PRC government's stimulus measures to drive domestic demand are maintaining the momentum of economic growth of the nation. This reinforces our belief that there is still ample room for extending the scale of operation and profitability of the Group. In an effort to further increase our market share, the Group will adopt a growth strategy as well as consolidate our leading position in the convenience store business in Beijing through rapid expansion of outlets and mergers and acquisitions. In addition, we will fully capitalize on business opportunities and aim to achieve steady and sustainable profit growth so as to generate more satisfactory returns for our shareholders and investors.

## FUTURE OUTLOOK

The Group will focus on strengthening the brand name & market leadership of Hi-24 convenience store chain and expect the number of outlets of Hi-24 to reach 300 in 2011. The Group has started a new business of providing short term loan finance in PRC in 2009. More resources will be deployed in this new business as the profitability level is very attractive. Meanwhile, the Group is also evaluating various business plans and will inform shareholders and potential investors in due course.

## FINANCIAL REVIEW

### Revenue, Gross Profit and Expenses

Revenue for 2009 was about HK$2,073.1 million, representing an increase of HK$296.1 million or 16.7% as compared with HK$1,777.0 million in 2008. Gross profit for 2009 was approximately HK$249.2 million, representing an increase of HK$71.8 million or 40.5% as compared with HK$177.4 million in 2008. Gross profit margin for 2009 was 12.0%, as compared to 10.0% in 2008. Selling and distribution expenses and administrative expenses for the year represented 8.8% and 13.9% of turnover respectively, as compared with 6.8% and 16.9% of last year.

### Other Revenue and Other Net Income

Other revenue and other net income for 2009 was approximately HK$273.9 million, representing an increase of 9.3% over HK$250.6 million for 2008. The increase in other revenue and other net income was mainly attributable to reversal of previous impairment loss and increase in rental income from leasing of shop premises.

### Finance Costs

The Group's finance costs for 2009 were approximately HK$12.5 million, representing a increase of 11.6% over HK$11.2 million for 2008.

### Profit for the Year Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for 2009 was approximately HK$26.3 million, representing a decrease of 89.4% as compared with HK$247.7 million in 2008.

### Capital Structure, Liquidity and Financial Resources

The Group's total assets increased by 14.6% to HK$2,087.8 million (2008: HK$1,822.0 million), mainly comprising property, plant and equipment of approximately HK$70.2 million, investment property of approximately HK$65.9 million, intangible assets of approximately HK$160.5 million, goodwill of approximately HK$378.0 million, available-for-sale investments and financial assets at fair value through profit or loss of approximately HK$41.0 million, inventory of approximately HK$223.0 million, accounts receivable of approximately HK$43.8 million, other receivables, short term loans receivable, deposits and prepayments of approximately HK$446.8 million and bank deposits and cash of about HK$650.0 million.

The Group's bank borrowings were about HK$173.2 million. The debt maturity profile of the Group as at 31 December 2009 is analyzed below:

| | **2009** | 2008 |
|---|---|---|
| | **HK$ Million** | HK$ Million |
| Within 1 year | **152.1** | 169.6 |
| After 1 year but within 5 years | **20.5** | – |
| Over 5 years | **0.6** | – |
| | **173.2** | 169.6 |

The following asset of the Group has been pledged for securing bank loan facilities:

| | **2009** | 2008 |
|---|---|---|
| | **HK$ Million** | HK$ Million |
| Investment property | **65.9** | 58.0 |

## Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2009. 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 material adverse effect on the Group's financial situation or operational results.

## Financial Risk Management

The Group's major financial instruments include cash and cash equivalents, equity investments, borrowings, accounts receivable and accounts payable. 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 in a timely and effective manner.

*(i) Currency 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. To reduce currency risk exposure, the Group matches assets with borrowings in the same currency to the extent possible.

*(ii) Interest Rate Risk*

The company is exposed to cash flow interest rate risk in relation to variable-rate borrowings. It is the Company's policy to maintain the interest rate of its borrowings at Benchmark Borrowing Rate of the People's Bank of China so as to minimize the fair value interest rate risk.

The company's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from the company's RMB borrowings.

*(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 Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. 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*

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.

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 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. Total equity represents equity attributable to the equity holders of the Group. The debt-and-equity analysis of the Group as at 31 December 2008 and 31 December 2009 are as follows:

| | **Group** | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Interest-bearing bank loans | **173,189** | 169,587 |
| Less: Cash and cash equivalents | **(649,688)** | (550,385) |
| | **(476,499)** | (380,798) |
| Total equity | **841,049** | 781,787 |

As at 31 December 2008 and 31 December 2009, the Group had no net debt.

## Fair Value Estimation

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

## Human Resources Management

As at 31 December 2009, the Group employed approximately 4,500 full time staff in Mainland China and Hong Kong. Total staff costs (including directors' remuneration) for the year were approximately HK$121.3 million. 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.

## Event After the Reporting Period

On 24 March 2010, K.P.B. Marketing Limited ("K.P.B"), an indirect wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Bailian Hong Kong Limited, pursuant to which K.P.B. has conditionally agreed to sell and Bailian Hong Kong Limited has conditionally agreed to purchase the entire issued share capital of K.P.I. (BVI) Retail Management Company Limited. The consideration for the disposal is RMB441,760,000 (equivalent to approximately HK$502 million), which shall be satisfied in cash in the following manner:

(a) RMB132,528,000 (equivalent to approximately HK$150.6 million) shall be payable as initial deposit within three days upon release of the very substantial disposal announcement;

(b) RMB88,352,000 (equivalent to approximately HK$100.4 million) shall be payable as further deposit within three days upon despatch of the notice convening the EGM to the shareholders; and

(c) RMB220,880,000 (equivalent to approximately HK$251 million) shall be payable upon completion of the agreement.

K.P.I. (BVI) Retail Management Company Limited is an investment company incorporated in the British Virgin Islands with limited liability. The assets of the K.P.I. (BVI) Retail Management Company Limited comprise its 100% equity interests in Bestjoy International Limited (which is an investment company incorporated in the British Virgin Islands with limited liability holding 20% equity interests in Hualian GMS) and its 40% direct equity interests in Hualian GMS. Hualian GMS is a sino-foreign joint venture established in the PRC principally engaged in hypermarket chain operation in the PRC.

The background to the proposed agreement is as follows:

The Group is principally engaged in retail business in the PRC including supermarkets and convenience chain stores, sales of food products and provision of short term financing services.


Hualian GMS was initially established by the Group as a jointly controlled entity in 1998. Subsequently, the Group acquired an additional 20% equity interests in Hualian GMS in January 2008, as a result of which the Group gained control of Hualian GMS and extended its hypermarket business in the PRC. Hualian GMS operates 18 hypermarket outlets mainly in Shanghai and nearby provinces such as Jiangsu and Zhejiang. Although Hualian GMS has been making profits in past years, the Board considered competition in the retail business in Shanghai as being very intense and the Group would like to devote more time and resources to strengthening its market leadership in its convenience store business and other business in Beijing. Currently the Group has more than 170 convenience store outlets operating 24 hours daily in Beijing city alone, which is the largest convenience chain store in terms of number of outlets in Beijing. The Board considered the return from its divestment attractive. The disposal represents an opportunity for the Group to realize part of its investment by deploying its time and resources to its convenience store business in Beijing and other cities in the PRC in order to maintain or even enhance its market share.

## EXECUTIVE DIRECTORS

**MR CHEUNG SIU LAM**, aged 51, 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 51, 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 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 48, 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 53, is graduated from Beijing University of International Business and Economics and Westminster University of UK. Mr. Liu has over 27 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 57, 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 24 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 59, 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 40, 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 17 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 37, 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 42, 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 19 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.

**MADAM CHIN TUNG MUI**, aged 48, 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 2009.

## 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 segment revenue, results, assets and liabilities for the year ended 31 December 2009 is set out in note 4 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 37. The directors do not recommend the payment of any dividend in this year (2008: NIL).

## RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 35 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 33 and 34 to the financial statements, respectively.

## DISTRIBUTABLE RESERVES

Profit for the year attributable to owners of the Company of HK$26,303,000 (2008: HK$247,686,000) has been transferred to reserves. As at 31 December 2009, the Company's reserve available for distribution to shareholders amounted to approximately HK$85,219,000 (2009: HK$65,969,000) 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, sale of food products and provision of short term financing services. The five largest customers and the five largest suppliers of the Group accounted for less than 30% of the Group's revenue 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 Chan Yuk Ming and Mr Liu Hui 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 2009, 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 125,523,556 ordinary shares and 10,000,000 underlying shares *(Note 2)* and interest in controlled corporation of 86,400,000 ordinary shares *(Note 3)* | 671,967,796 | 20,000,000 | 40.09% |
| Lo Wan | Beneficial owner of 125,523,556 ordinary shares and 10,000,000 underlying shares, family interest of 546,444,240 ordinary shares and 10,000,000 underlying shares *(Note 4)* | 671,967,796 | 20,000,000 | 40.09% |
| 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 125,523,556 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 2009.

## 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 2009, 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 125,523,556 ordinary shares and 10,000,000 underlying shares and interest in controlled corporation of 86,400,000 ordinary shares | 671,967,796 | 20,000,000 | 40.09% |
| Lo Wan | Beneficial owner of 125,523,556 ordinary shares and 10,000,000 underlying shares, family interest of 546,444,240 ordinary shares and 10,000,000 underlying shares | 671,967,796 | 20,000,000 | 40.09% |

| 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 | – | 5.00% |
| ARC Capital Holdings Limited *(Note 2)* | Beneficial owner | 280,625,000 | – | 16.25% |

*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;<br><br>(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<br><br>(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 2009, 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 1.1.2009 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding at 31.12.2009 | 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 | 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 2009. 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 2009.

## 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, 16 April 2010

CCIF
CCIF CPA LIMITED
34/F The Lee Gardens
33 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 34 to 129 which comprise the consolidated and Company statements of financial position as at 31 December 2009, 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 2009 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, 16 April 2010

**Kwok Cheuk Yuen**
Practising Certificate Number P02412

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Revenue** | *3* | **2,073,083** | 1,777,062 |
| Cost of sales | | **(1,823,908)** | (1,599,691) |
| **Gross profit** | | **249,175** | 177,371 |
| Change in fair value of investment property | *14* | **7,939** | 812 |
| Other revenue | *3* | **268,665** | 245,807 |
| Other net income | *3* | **5,259** | 4,817 |
| Selling and distribution expenses | | **(182,792)** | (120,371) |
| Administrative expenses | | **(287,769)** | (299,670) |
| Gain on remeasurement of interest in jointly controlled entity to fair value | *18* | **–** | 261,565 |
| Loss on disposal of an associate | *17* | **–** | (459) |
| Finance costs | *6* | **(12,471)** | (11,151) |
| **Profit before taxation** | *5* | **48,006** | 258,721 |
| Income tax | *8(a)* | **(5,392)** | (2,847) |
| **Profit for the year** | | **42,614** | 255,874 |
| **Other comprehensive income:** | | | |
| Exchange differences on translation of financial statements of overseas subsidiaries | | **358** | 5,961 |
| Change in fair value of available-for-sale financial assets | | **16,057** | (7,043) |
| **Other comprehensive income for the year** | | **16,415** | (1,082) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **59,029** | 254,792 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | | **26,303** | 247,686 |
| Non-controlling interests | | **16,311** | 8,188 |
| | | **42,614** | 255,874 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **42,543** | 246,604 |
| Non-controlling interests | | **16,486** | 8,188 |
| | | **59,029** | 254,792 |
| **Earnings per share (in currency unit)** | *11* | | |
| – Basic | | **HK1.524 cents** | HK14.431 cents |
| – Diluted | | **HK1.515 cents** | HK14.332 cents |

The notes on pages 41 to 129 form an integral part of these financial statements.

# Consolidated Statement of Financial Position

As at 31 December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **70,187** | 65,203 |
| Land lease premium | 13 | **858** | 882 |
| Investment property | 14 | **65,893** | 57,954 |
| Intangible assets | 15 | **160,479** | 167,431 |
| Interest in an associate | 17 | **–** | – |
| Interest in a jointly controlled entity | 18 | **–** | – |
| Goodwill | 19 | **377,972** | 377,972 |
| Long term lease prepayment | 25 | **7,516** | 8,591 |
| Available-for-sale investments | 20 | **38,365** | 21,774 |
| | | **721,270** | 699,807 |
| **Current assets** | | | |
| Land lease premium | 13 | **23** | 23 |
| Accounts receivable | 21 | **43,755** | 28,055 |
| Short term loans receivable | 22 | **52,365** | – |
| Financial assets at fair value through profit or loss | 23 | **2,623** | – |
| Inventories | 24 | **222,949** | 219,514 |
| Other receivables, deposits and prepayments | 25 | **394,400** | 323,264 |
| Tax recoverable | 8(b) | **567** | 567 |
| Pledged deposits | 27 | **174** | 339 |
| Cash and cash equivalents | 28 | **649,688** | 550,385 |
| | | **1,366,544** | 1,122,147 |
| **Current liabilities** | | | |
| Tax payable | 8(b) | **1,549** | 825 |
| Accounts payable | 29 | **550,785** | 457,387 |
| Other payables, deposits received and accruals | 30 | **479,042** | 370,417 |
| Short term bank loans – unsecured | 31 | **152,093** | 169,587 |
| | | **1,183,469** | 998,216 |
| **Net current assets** | | **183,075** | 123,931 |
| **Total assets less current liabilities** | | **904,345** | 823,738 |
| **Non-current liabilities** | | | |
| Long-term bank loan | 31 | **21,096** | – |
| Deferred tax liabilities | 32 | **42,200** | 41,951 |
| | | **63,296** | 41,951 |
| **NET ASSETS** | | **841,049** | 781,787 |

# Consolidated Statement of Financial Position

As at 31 December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | *33* | **172,590** | 172,590 |
| Reserves | *35* | **564,243** | 521,550 |
| | | **736,833** | 694,140 |
| **Non-controlling interests** | *35* | **104,216** | 87,647 |
| **TOTAL EQUITY** | | **841,049** | 781,787 |

Approved and authorised for issue by the board of directors on 16 April 2010.

On behalf of the board

**Cheung Siu Lam**
*Director*

**Chan Yuk Ming**
*Director*

The notes on pages 41 to 129 form an integral part of these financial statements.

# Statement of Financial Position

As at 31 December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *12* | **633** | 926 |
| Interests in subsidiaries | *16* | **33,519** | 33,519 |
| | | **34,152** | 34,445 |
| **Current assets** | | | |
| Other receivables, deposits and prepayments | *25* | **2,048** | 1,847 |
| Amounts due from subsidiaries | *26* | **527,294** | 533,544 |
| Cash and cash equivalents | *28* | **1,476** | 7,347 |
| | | **530,818** | 542,738 |
| **Current liabilities** | | | |
| Other payables, deposits received and accruals | *30* | **138** | 356 |
| Amounts due to subsidiaries | *26* | **13,849** | 14,741 |
| | | **13,987** | 15,097 |
| **Net current assets** | | **516,831** | 527,641 |
| **Total assets less current liabilities** | | **550,983** | 562,086 |
| **NET ASSETS** | | **550,983** | 562,086 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | *33* | **172,590** | 172,590 |
| Reserves | *35* | **378,393** | 389,496 |
| | | **550,983** | 562,086 |
| **TOTAL EQUITY** | | **550,983** | 562,086 |

Approved and authorised for issue by the board of directors on 16 April 2010.

On behalf of the board

**Cheung Siu Lam**
*Director*

**Chan Yuk Ming**
*Director*

The notes on pages 41 to 129 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

| | Share capital HK$'000 | Share premium HK$'000 | Share-based compensation reserve HK$'000 | Other comprehensive income: Exchange fluctuation reserve HK$'000 | Other comprehensive income: Fair value reserve HK$'000 | Statutory surplus reserve HK$'000 | Retained earnings HK$'000 | Attributable to owners of the Company HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 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 |
| Total comprehensive income for the year | – | – | – | 5,961 | (7,043) | – | 247,686 | 246,604 | 8,188 | 254,792 |
| Transfer | – | – | – | – | – | 441 | (441) | – | – | – |
| At 31 December 2008 and 1 January 2009 | 172,590 | 287,362 | 16,914 | 11,009 | (7,043) | 747 | 212,561 | 694,140 | 87,647 | 781,787 |
| Total comprehensive income for the year | – | – | – | 183 | 16,057 | – | 26,303 | 42,543 | 16,486 | 59,029 |
| Transfer | – | – | – | – | – | 357 | (207) | 150 | 83 | 233 |
| **At 31 December 2009** | **172,590** | **287,362** | **16,914** | **11,192** | **9,014** | **1,104** | **238,657** | **736,833** | **104,216** | **841,049** |

The notes on pages 41 to 129 form an integral part of these financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | **48,006** | 258,721 |
| Adjustments for | | | |
| Depreciation of property, plant and equipment | *12* | **25,221** | 28,723 |
| Loss on disposal of property, plant and equipment | | **3,718** | 9,355 |
| Interest income | | **(4,952)** | (8,875) |
| Finance costs | | **12,471** | 11,151 |
| Share-based payment expenses | | **–** | 14,761 |
| Dividend income from unlisted investments | | **–** | (304) |
| Dividend income from listed investments | | **(442)** | (328) |
| Unrealised (gain)/loss on changes in fair values of financial assets | | **–** | 9,881 |
| Gain on remeasurement of interest in jointly controlled entity to fair value | | **–** | (261,565) |
| Loss on disposal of an associate | | **–** | 459 |
| Amortisation of intangible assets | | **6,952** | 6,365 |
| Amortisation of land lease premium | | **24** | 23 |
| Changes in fair value of investment property | | **(7,939)** | (812) |
| **Operating profit before changes in working capital** | | **83,059** | 67,555 |
| Increase in short-term loans receivable | | **(52,365)** | – |
| Decrease in amount due from a joint venture partner | | **–** | 2,928 |
| Increase in inventories | | **(3,435)** | (16,723) |
| Increase in accounts receivable | | **(146)** | (261) |
| Increase in other receivables, deposits and prepayments | | **(85,615)** | (18,962) |
| Increase in accounts payable | | **93,398** | 136,091 |
| Increase in other payables and accruals | | **108,625** | 64,946 |
| Increase in financial assets at fair value through profit or loss | | **(2,623)** | (5,391) |
| **Cash generated from operations** | | **140,898** | 230,183 |
| Taxation paid | | | |
| – PRC enterprise income tax | *8(b)* | **(4,419)** | (5,070) |
| **Net cash generated from operating activities** | | **136,479** | 225,113 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2009

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Purchase of investment property | | **–** | (57,142) |
| Purchase of property, plant and equipment | | **(33,787)** | (35,020) |
| Acquisition of a subsidiary, net of cash acquired | *37* | **–** | 255,999 |
| Deemed disposal of jointly controlled entity | | **–** | (108,660) |
| Purchase of available-for-sale investments | | **(7,282)** | – |
| Proceeds from sale of available-for-sale investments | | **6,748** | – |
| Proceeds on disposal of an associate | | **–** | 1,653 |
| Interest received | | **4,952** | 8,875 |
| Dividend received from unlisted investment | | **–** | 304 |
| Dividend received from listed investment | | **442** | 328 |
| Proceeds on disposal of property, plant and equipment | | **70** | 208 |
| **Net cash (outflow)/inflow from investing activities** | | **(28,857)** | 66,545 |
| **Financing activities** | | | |
| Interest paid | | **(12,471)** | (11,151) |
| Proceeds from new bank loans | | **173,189** | 65,005 |
| Repayment of bank loans | | **(169,587)** | (63,830) |
| **Net cash outflow from financing activities** | | **(8,869)** | (9,976) |
| **Increase in cash and cash equivalents** | | **98,753** | 281,682 |
| **Effect of foreign exchange rate changes** | | **385** | 10,382 |
| **Cash and cash equivalents at beginning of the year** | | **550,724** | 258,660 |
| **Cash and cash equivalents at end of the year** | *28* | **649,862** | 550,724 |

The notes on pages 41 to 129 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 and the requirements of the Hong Kong Companies Ordinance. 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. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(b) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. These financial statements are presented in Hong Kong dollars ("HKD"), rounded to the nearest thousand except for per share data. Hong Kong dollars is the Company's functional and presentation currency.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### b) Basis of preparation of the financial statements *(continued)*

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– investment property *(see note 2(v))*;

– financial instruments classified as available-for-sale or as trading securities *(see note 2(k))*.

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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and key sources of estimation uncertainty with a significant risk of material adjustment in the next year are discussed in note 41.

*Application of new and revised HKFRSs*

The Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") that are first effective for the current accounting period.

| | |
|---|---|
| HKAS 23 (Revised 2007) | Borrowings Costs |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 which is effective for annual periods beginning or after 1 July 2009 |
| HKFRSs (Amendments) | Improvement to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes |

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### b) Basis of preparation of the financial statements *(continued)*

*Application of new and revised HKFRSs (continued)*

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

The amendments to HKAS 23, HKFRS 2 and HK(IFRIC) – Int 13 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. 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 most senior executive management, and has resulted in additional reportable segments being identified and presented *(see note 4)*. Corresponding amounts have been provided on a basis consistent with the revised segment information.

- As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures in note 42(f) about the fair value measurement of the Group's financial instruments, categorizing these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided. The adoption of amendments to HKFRS 7 only results in additional disclosures.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### b) Basis of preparation of the financial statements *(continued)*

*Application of new and revised HKFRSs (continued)*

- The "Improvements to HKFRSs (2008)" comprise a number of amendments to a range of HKFRSs. Of these, the following two amendments have resulted in changes to the Group's accounting policies:

  – As a result of amendments to HKAS 28, Investments in associates, impairment losses recognised in respect of the associates carried under the equity method are no longer allocated to the goodwill inherent in that carrying amount. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.

  – As a result of amendments to HKAS 40, Investment property, investment property which is under construction will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. Previously such property was carried at cost until the construction was completed, at which time it was fair valued with any gain or loss being recognized in profit or loss. As the Group does not currently have any investment property under construction, this change in policy has no impact on net assets or profit or loss for any of the periods presented.

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

*New/revised HKFRSs not adopted*

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2009.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### b) Basis of preparation of the financial statements *(continued)*

*New/revised HKFRSs not adopted (continued)*

The Group has not early applied any of the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKAS 24 (Revised) | Related Party Disclosures[5] |
| HKAS 32 (Amendment) | Classification of Rights Issues[4] |
| HKAS 39 (Amendment) | Eligible hedged items[1] |
| HKFRS 1 (Amendment) | Addition Exemptions of First-time Adopters[3] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions[3] |
| HKFRS 9 | Financial Instruments[7] |
| HK(IFRIC) – Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[5] |
| HK(IFRIC) – Int 17 | Distribution of Non-cash Assets to Owners[1] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[6] |

1 *Effective for annual periods beginning on or after 1 July 2009.*
2 *Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.*
3 *Effective for annual periods beginning on or after 1 January 2010.*
4 *Effective for annual periods beginning on or after 1 February 2010.*
5 *Effective for annual periods beginning on or after 1 January 2011.*
6 *Effective for annual periods beginning on or after 1 July 2010.*
7 *Effective for annual periods beginning on or after 1 January 2013.*

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. On adoption of HKAS 27 (Revised), 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. (The adoption of this change in HKAS 27 (Revised) should be applied prospectively.)

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 within 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(o) and 2(z) 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(i))*, unless the investment is classified as held for sale. All acquisition-related costs will not be capitalised as part of the costs of acquisition but will be expensed and charged to profit or loss immediately. (Before the adoption of HKFRS 3 (Revised), all acquisition-related costs will be capitalized as part of the costs of acquisition, HKFRS 3 (Revised) applies prospectively.)

### 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(f) and (i))*.

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(i))*, unless it is classified as held for sale.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### f) Goodwill

Goodwill represents the excess of the cost of an acquisition 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. Any contingent payments are classified as liabilities subsequently remeasured through the statement of comprehensive income (before the adoption of HKFRS 3 (Revised), the carrying amount of goodwill will be adjusted in recognition of the contingent payments, HKFRS 3 (Revised) applies prospectively). 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(i))*. 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.

### g) 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(i))*. 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.

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.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### h) Property, plant and equipment

Property, plant and equipment other than other properties and investment properties are stated at cost less accumulated depreciation and 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 profit or loss on the date of retirement or disposal.

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)*

### h) 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.

### i) Impairment of assets

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

Investments in equity securities (other than investments in subsidiaries, associates and jointly controlled entities: see note 2(i)(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 the end of each reporting period 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)*

### i) 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, 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, 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)*

### i) 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 trade debtors included within trade 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 trade 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 the end of each reporting period 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)*

### i) 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 profit or loss 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 change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment loss 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 profit or loss in the year in which the reversals are recognised.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### i) 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(i))*.

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.

### j) Provisions and contingent liabilities

Provisions the 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 expenditure 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)*

### k) Financial assets

The Group classified its investments in securities in the following categories: 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) Available-for-sale financial assets*

Available-for-sale financial assets are initially recognised at fair value plus transaction costs. At the end of each reporting period 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(l) 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(l). When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

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 the end of each reporting period subsequent to initial recognition. An impairment loss is recognised in profit or loss 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.

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### k) Financial assets *(continued)*

*ii) 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 end of reporting period. 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 profit or loss in the period in which they arise.

*iii) 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.

Reclassification of financial assets, other than as set out below, or of financial liabilities between categories are not permitted following their initial recognition.

Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### k) Financial assets *(continued)*

Financial assets can only be transferred out of the available-for-sale category to the loan and receivables category, where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets must be reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out the available-for-sale category into loans and receivables, any gain or loss on those assets recognized in shareholders' equity prior to the date of reclassification is amortised to the income statement over the remaining life of the financial assets, using the effective interest method.

### l) 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 from the sale of merchandise is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the merchandise are delivered to customers and title has passed.

*(ii)* Promotion and store display income, income from leasing of merchandise storage space are recognised according to contract terms and as services are provided.

*(iii)* *Revenue from short term financing service*

– Short term financing service income, which is collected from the customer at the inception of the short term loan, is recognised ratably over the term of the loan made.

– Interest income on provision of short term financing service is recognised using the effective interest method for all short term loans that the Group deems to be collectible based on historical short term loan redemption statistics.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### l) Revenue recognition *(continued)*

*(iv) 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.

*(v) 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.

*(vi) Interest income*

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

*(vii) 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, an 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.

*(viii) Sale of trading securities*

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### m) Accounts receivable and other receivables

Accounts 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(i))*.

### n) Short term loans receivable

Short term loans receivable secured by the pledge of personal property are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A typical short term loan has a term of thirty days. If the loan is not repaid, the loan principal becomes the cost of the forfeited collateral, which is held for sale.

### o) Accounts and other payables

Accounts 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 Group's functional and presentation currency.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### p) Foreign currencies *(continued)*

*Transactions and balances*

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

*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 (including comparatives) shall be translated at the closing rate at the end of reporting period;

ii) income and expenses for each statement of comprehensive income (including comparatives) shall be translated at exchange rates at the dates of the transactions; and

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. The statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 30 January 2008, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 30 January 2008 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 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.

For the Group's PRC operations participate in defined contribution retirement plans managed by the local municipal government in the locations in which it operates. The relevant authorities of the local municipal government in the PRC is responsible for the retirement benefit obligations payable to the Group's retired employees. The Group has no obligation for payment of retirement benefits beyond the annual contribution. The contribution payable is charged as an expense to profit or loss as and when incurred.

### 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 such as direct labour 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.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 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 end of reporting period, 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.

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.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### t) Income tax *(continued)*

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 end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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.

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.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 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.

### v) Investment properties

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.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### v) Investment properties *(continued)*

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.

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.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 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.

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.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 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

(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.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### 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

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 3. REVENUE, OTHER REVENUE AND OTHER NET INCOME

The principal activities of the Group are the retailing operations in supermarket stores and convenience stores, sales of food products and provision of short term financing services.

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts in supermarket and convenience stores and sales of food products and financial service income and interest income arising on provision of short term financing services in short term financing business during the year.

## 3. REVENUE, OTHER REVENUE AND OTHER NET INCOME *(continued)*

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Revenue | | |
| Supermarket chain operations | **1,904,483** | 1,775,654 |
| Convenience store chain operations | **164,967** | – |
| Sales of food products | **671** | 1,408 |
| Interest income on provision of short term financing service | **166** | – |
| Short term financing service income | **2,796** | – |
| | **2,073,083** | 1,777,062 |
| Other revenue | | |
| Bank interest income | **4,786** | 7,126 |
| Loan interest income | **–** | 1,749 |
| Total interest income on financial assets not at fair value through profit or loss | **4,786** | 8,875 |
| Rental receivable from operating leases less direct outgoings of Nil (2008: Nil) | **6,114** | 4,456 |
| Dividend income from unlisted investment | **–** | 304 |
| Dividend income from listed investments | **442** | 328 |
| Reversal of impairment loss on other loans receivable *(note 25)* | **16,653** | 5,465 |
| Income from government subsidies | **4,722** | 2,583 |
| Gross rental income from sub-leasing of shop premises | **48,838** | 39,041 |
| Promotion and store display income from suppliers | **175,714** | 173,818 |
| Others | **11,396** | 10,937 |
| | **268,665** | 245,807 |
| Other net income | | |
| Gain on disposal of financial assets at fair value through profit or loss | **3,692** | – |
| Gain on disposal of available-for-sale financial assets | **1,567** | – |
| Exchange gain, net | **–** | 4,817 |
| | **5,259** | 4,817 |

## 4. SEGMENTAL INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

Operating segments are identified on the basis of internal reports which provides information about components of the Group. These information are reported to and reviewed by the chief operating decision makers for the purposes of resource allocation and performance assessment.

### a) Segment revenue, results, assets and liabilities

For the purpose of assessing segment performance and allocating resources between segments, the Group's chief operating decision makers monitor the results, assets and liabilities attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments. Head office and corporate expenses are not allocated to individual segments.

Segment assets principally comprise all tangible assets, intangible assets and current assets directly attributable to each segment.

The two reportable operating segments are listed as follows:

(i) Supermarkets and convenience stores engaged in the distribution of live and fresh products, dry products, beverages, processed food and daily necessities through the supermarkets and convenience stores of the Group;

(ii) All others comprised, principally, sales of food products and short term financing business.

## 4. SEGMENTAL INFORMATION *(continued)*

### a) Segment revenue, results, assets and liabilities *(continued)*

*a) Segment results, assets and liabilities*

| | Supermarkets and convenience stores | | All others | | Total | |
|---|---|---|---|---|---|---|
| | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 |
| Revenue from external customers | **2,069,450** | 1,775,654 | **3,467** | 1,408 | **2,072,917** | 1,777,062 |
| Interest revenue | **–** | – | **166** | – | **166** | – |
| Reportable segment revenue | **2,069,450** | 1,775,654 | **3,633** | 1,408 | **2,073,083** | 1,777,062 |
| Reportable segment profit before taxation | **34,213** | 40,583 | **4,857** | (4,460) | **39,070** | 36,123 |
| Interest income | **4,521** | 6,521 | **222** | 154 | **4,743** | 6,675 |
| Interest expenses | **(11,009)** | (11,151) | **–** | – | **(11,009)** | (11,151) |
| Depreciation and amortisation | **(31,665)** | (34,639) | **(59)** | – | **(31,724)** | (34,639) |
| Income tax | **(4,107)** | (3,649) | **(531)** | – | **(4,638)** | (3,649) |
| Reportable segment assets | **1,856,898** | 1,652,291 | **126,387** | 47,774 | **1,983,285** | 1,700,065 |
| Additions to non-current segment assets | **33,376** | 35,020 | **332** | – | **33,708** | 35,020 |
| Reportable segment liabilities | **(1,101,823)** | (1,016,555) | **(88,089)** | (4,023) | **(1,189,912)** | (1,020,578) |

## 4. SEGMENTAL INFORMATION *(continued)*

### a) Segment revenue, results, assets and liabilities *(continued)*

*b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities*

| | **2009 HK$'000** | 2008 HK$'000 |
|---|---|---|
| **Revenue** | | |
| Reportable segments' revenue | **2,073,083** | 1,777,062 |
| Consolidated revenue | **2,073,083** | 1,777,062 |
| **Profit** | | |
| Reportable segments' profit derived from Group's external customers | **39,070** | 36,123 |
| Unallocated other revenue | **34,061** | 265,872 |
| Unallocated head office and corporate expenses | **(25,125)** | (43,274) |
| Consolidated profit before taxation | **48,006** | 258,721 |
| **Assets** | | |
| Reportable segments' assets | **1,983,285** | 1,700,065 |
| Unallocated head office and corporate assets | **104,529** | 121,889 |
| Consolidated total assets | **2,087,814** | 1,821,954 |
| **Liabilities** | | |
| Reportable segments' liabilities | **(1,189,912)** | (1,020,578) |
| Unallocated head office and corporate liabilities | **(56,853)** | (19,589) |
| Consolidated total liabilities | **(1,246,765)** | (1,040,167) |

### b) Geographical Information

The geographical location of customers is based on the location at which the goods are delivered. Substantially, all of the Group's revenue from external customers, non-current assets and capital expenditure are located in the PRC, no analysis on revenue from external customers and non-current assets by location are presented.

### c) Information about major customers

The Group has a very wide customer base, no single customer contributed more than 10% of the Group's revenue for each of the years ended 31 December 2008 and 2009.

## 5. PROFIT BEFORE TAXATION

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

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Depreciation | **25,221** | 28,723 |
| Amortisation of land lease premium | **24** | 23 |
| Amortisation of intangible assets | **6,952** | 6,365 |
| Cost of inventories sold *(note 24(b))* | **1,823,908** | 1,599,691 |
| Operating lease payments – land and buildings | **88,527** | 80,479 |
| Donation | **–** | 50 |
| Auditors' remuneration | **1,177** | 1,534 |
| Net foreign exchange gain | **–** | (4,817) |
| Staff costs (including directors' remuneration – note 7): | | |
| Salaries, allowances and other benefits | **97,638** | 93,576 |
| Pension scheme contribution | **23,666** | 20,949 |
| Equity settled share-based payment expenses | **–** | 14,761 |
| | **121,304** | 129,286 |
| Unrealised (gain)/loss on changes in fair value of financial assets at fair values through profit or loss | **(6)** | 9,881 |
| Loss on disposal of property, plant and equipment | **3,718** | 9,355 |

## 6. FINANCE COSTS

| | Group | |
|---|---|---|
| | 2009<br>HK$'000 | 2008<br>HK$'000 |
| Interest expense on bank loans, bank overdrafts and other loans repayable within five years, being total interest expense on financial liabilities not at fair value through profit or loss | **12,471** | 11,151 |

## 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 2009 | | | | |
|---|---|---|---|---|---|
| | Fees HK$'000 | Salaries, allowances and other benefits HK$'000 | Share-based payments HK$'000 | Retirement scheme contributions HK$'000 | Total HK$'000 |
| **Executive directors** | | | | | |
| Cheung Siu Lam *(Chairman)* | – | 3,060 | – | 12 | 3,072 |
| Chan Yuk Ming *(Vice chairman)* | – | 839 | – | 12 | 851 |
| Lo Wan | – | 303 | – | 12 | 315 |
| **Non-executive directors** | | | | | |
| Liu Hui | 40 | – | – | – | 40 |
| **Independent non-executive directors** | | | | | |
| Wang Jian Sheng | 40 | – | – | – | 40 |
| Chan Chun Keung | 40 | – | – | – | 40 |
| Tsang Kwok Wai | 80 | – | – | – | 80 |
| | 200 | 4,202 | – | 36 | 4,438 |

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

As at 31 December 2009, 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 34.

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 2009 (2008: 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 (2008: three) were directors of the Company whose emoluments are included in the disclosure in note 7(i) above. The emoluments of the remaining two (2008: two) individuals were as follows:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries, allowances and other benefits | **1,093** | 1,200 |
| Retirement scheme contributions | **24** | 24 |
| Share-based payments | **–** | 1,724 |
| | **1,117** | 2,948 |

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:

| | **2009** | 2008 |
|---|---|---|
| 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) Income tax in the consolidated statement of comprehensive income represents:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Current tax | | |
| PRC Enterprise Income Tax | **5,143** | 4,011 |
| Under-provision of PRC Enterprise Income Tax in prior years | **–** | 222 |
| Deferred tax | | |
| Current year *(note 32)* | **249** | (1,386) |
| Tax charge | **5,392** | 2,847 |

Reconciliation between tax expense and accounting profit at the applicable tax rate:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit before taxation | **48,006** | 258,721 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | **8,544** | 42,871 |
| Income not subject to taxation | **(3,763)** | (156,049) |
| Expenses not deductible for taxation purposes | **1,730** | 145 |
| Effect of depreciation allowance | **(15)** | (25) |
| Utilisation of tax losses previously not recognised | **(3,243)** | (2,288) |
| Deferred tax assets not recognised | **1,890** | 119,357 |
| Deferred taxation *(note 32)* | **249** | (1,386) |
| Under-provision in prior years | **–** | 222 |
| Tax charge | **5,392** | 2,847 |

## 8. INCOME TAX *(continued)*

a) Income tax in the consolidated statement of comprehensive income represents: *(continued)*

No provision for profits tax in Hong Kong has been made as the Group has no income assessable for profits tax for both years in Hong Kong.

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

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| At 1 January | **(258)** | (669) |
| Deemed disposal of a jointly controlled entity | **–** | 172 |
| Acquisition of a subsidiary | **–** | (430) |
| Provision for the year | | |
| – PRC taxation | **(5,143)** | (4,011) |
| (Under)/over provision in prior year | **–** | (222) |
| Taxation paid for PRC enterprise | **4,419** | 5,070 |
| Exchange adjustment | **–** | (168) |
| At 31 December | **(982)** | (258) |
| Analysed for reporting purposes as: | | |
| Tax recoverable | **567** | 567 |
| Tax payable | **(1,549)** | (825) |
| | **(982)** | (258) |

## 9. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company includes a loss of HK$11,103,000 (2008: net profit of HK$163,602,000) 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 2009 (2008: Nil).

## 11. EARNINGS PER SHARE

### a) Basic earnings per share

The calculation of basic and diluted earnings per share attributable to ordinary equity holders of the Company are based on the following data:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| **Profit:** | | |
| Profit attributable to owners of the Company | **26,303** | 247,686 |

| | Number of shares | |
|---|---|---|
| | **2009** | 2008 |
| **Shares:** | | |
| Issued ordinary shares at 1 January | **1,725,902,336** | 1,595,902,336 |
| Effect of issue of new shares | **–** | 120,409,836 |
| Weighted average number of ordinary shares at 31 December | **1,725,902,336** | 1,716,312,172 |

### b) Diluted earnings per share

The calculation of diluted earnings per share is based on the weighted average number of shares in issue adjusted for the potential dilutive effect caused by the share options granted under the share option scheme *(see note 33)* assuming they were fully exercised.

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| **Weighted average number of shares (diluted):** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,725,902,336** | 1,716,312,172 |
| Effect of deemed issue of shares under the Company's share option scheme | **10,550,372** | 11,900,279 |
| Weighted average number of ordinary shares (diluted) | **1,736,452,708** | 1,728,212,451 |

## 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 1/1/2008 | 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 and 1/1/2009 | 827 | 79,543 | 4,294 | 69,994 | 154,658 |
| Additions | – | 25,117 | – | 8,670 | 33,787 |
| Disposals | – | (3,300) | (415) | (12,848) | (16,563) |
| Exchange adjustment | – | 619 | 14 | 648 | 1,281 |
| **At 31/12/2009** | **827** | **101,979** | **3,893** | **66,464** | **173,163** |
| **Accumulated depreciation** | | | | | |
| 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 and 1/1/2009 | 512 | 44,102 | 2,113 | 42,728 | 89,455 |
| Charge for the year | 10 | 14,463 | 745 | 10,003 | 25,221 |
| Written back on disposals | – | (1,980) | (351) | (10,444) | (12,775) |
| Exchange adjustment | – | 498 | 11 | 566 | 1,075 |
| **At 31/12/2009** | **522** | **57,083** | **2,518** | **42,853** | **102,976** |
| **Carrying amount** | | | | | |
| **At 31/12/2009** | **305** | **44,896** | **1,375** | **23,611** | **70,187** |
| At 31/12/2008 | 315 | 35,441 | 2,181 | 27,266 | 65,203 |

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 1/1/2008 | 378 | 1,992 | 464 | 2,834 |
| Additions | – | – | 6 | 6 |
| As at 31/12/2008 and 1/1/2009 | 378 | 1,992 | 470 | 2,840 |
| Additions | – | – | 25 | 25 |
| **As at 31/12/2009** | **378** | **1,992** | **495** | **2,865** |
| **Accumulated depreciation** | | | | |
| At 1/1/2008 | 378 | 1,013 | 210 | 1,601 |
| Charge for the year | – | 245 | 68 | 313 |
| As at 31/12/2008 and 1/1/2009 | 378 | 1,258 | 278 | 1,914 |
| Charge for the year | – | 245 | 73 | 318 |
| **At 31/12/2009** | **378** | **1,503** | **351** | **2,232** |
| **Carrying amount** | | | | |
| **At 31/12/2009** | **–** | **489** | **144** | **633** |
| At 31/12/2008 | – | 734 | 192 | 926 |

## 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 | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Carrying amount at 1 January | **905** | 928 |
| Amortisation | **(24)** | (23) |
| Carrying amount at 31 December | **881** | 905 |
| Current portion of land lease premium | **(23)** | (23) |
| Non-current portion | **858** | 882 |
| Land in Hong Kong: | | |
| Medium term lease | **858** | 882 |

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

## 14. INVESTMENT PROPERTY

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| At valuation: | | |
| At 1 January | **57,954** | – |
| Addition | **–** | 57,142 |
| Increase in fair value | **7,939** | 812 |
| At 31 December | **65,893** | 57,954 |

## 14. INVESTMENT PROPERTY *(continued)*

The Group's investment property is situated at No.88, Xi San Wan Road North, Hai Ding District, Beijing, PRC. It is held under a long term lease for rental purpose. It was stated at fair value as at 31 December 2009. The investment property was revalued on 31 December 2009 by Beijing Ding Xian Property Valuation Company Limited, an independent 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, were based on capitalization of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties and on direct comparison approach assuming sale of each of these properties in its existing state with the benefit of vacant possession by making reference to comparable sales transactions as available in the relevant market.

Subsequent to the end of the reporting period, 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 1/1/2008 | 58,800 | – | 58,800 |
| Additions through acquisition of a subsidiary *(note 37)* | 173,348 | – | 173,348 |
| Additions | – | 448 | 448 |
| Disposal | (58,800) | – | (58,800) |
| **At 31/12/2008 and 31/12/2009** | **173,348** | **448** | **173,796** |
| **Accumulated amortization** | | | |
| At 1/1/2008 | 3,136 | – | 3,136 |
| Amortisation for the year | 6,356 | 9 | 6,365 |
| Written back on disposal | (3,136) | – | (3,136) |
| At 31/12/2008 and 1/1/2009 | 6,356 | 9 | 6,365 |
| Amortisation for the year | 6,934 | 18 | 6,952 |
| **At 31/12/2009** | 13,290 | 27 | 13,317 |
| **Carrying amount** | | | |
| **At 31/12/2009** | **160,058** | **421** | **160,479** |
| At 31/12/2008 | 166,992 | 439 | 167,431 |

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 | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **33,519** | 33,519 |
| Less: Impairment loss | **–** | (19,250) |
| Add: Reversal of impairment loss | **–** | 19,250 |
| | **33,519** | 33,519 |

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 2008, 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 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 has written 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 | Country of incorporation/ registration and operations | Nominal value of registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| 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 |

## 16. INTERESTS IN SUBSIDIARIES *(continued)*

| Name | Country of incorporation/ registration and operations | Nominal value of registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 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 |
| 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 |

## 16. INTERESTS IN SUBSIDIARIES *(continued)*

| Name | Country of incorporation/ registration and operations | Nominal value of registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| 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% | 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 |
| 海口港佳貿易有限公司（海口港佳）*(Note 2)* | PRC | Registered capital US$12,366,664 | – | 100% | Investment holding and property investment |
| 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 |

## 16. INTERESTS IN SUBSIDIARIES *(continued)*

| Name | Country of incorporation/ registration and operations | Nominal value of registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| 北京中港佳鄰商業有限公司 *(Note 5)* | PRC | Registered capital US$1,000,000 | – | 72% | Convenience stores chain |
| 北京萬方利通典當行有限公司 *(Note 6)* | PRC | Registered capital RMB15,000,000 | – | 100% | Provision of short term financing services |

\# *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.

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 foreign-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.

6) 北京萬方利通典當行有限公司is a limited liability company established in the PRC.

* *For identification purposes only.*

## 17. INTEREST IN AN ASSOCIATE

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Share of net assets | **–** | 2,112 |
| Disposal of an associate | **–** | (2,112) |
| At 31 December | **–** | – |

## 17. INTEREST IN AN ASSOCIATE *(continued)*

上海華聯港佳商業經營管理有限公司（"上海華聯"）is sino-foreign equity joint venture established in the PRC to be operated for 25 years up to April 2021. The Group has 49% effective interest in 上海華聯 through its subsidiary. 上海華聯 was wound up in year 2008 and the loss recognised between the proceeds received and the carrying amount of the investment is HK$459,000.

Summary financial information of the associate:

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **100%** | **Group's effective interest** | 100% | Group's effective interest |
| | **HK$'000** | **HK$'000** | HK$'000 | HK$'000 |
| Assets | **–** | **–** | – | – |
| Liabilities | **–** | **–** | – | – |
| Equity | **–** | **–** | – | – |
| Revenue | **–** | **–** | – | – |
| Profit/(loss) | **–** | **–** | – | – |

## 18. INTEREST IN A JOINTLY CONTROLLED ENTITY

Details of the Group's interest in the jointly controlled entity in 2008 are as follows:

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

*Note:*

i) 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 in 2008:

| | 100% HK$'000 | Group's effective interest HK$'000 |
|---|---|---|
| Assets | – | – |
| Liabilities | – | – |
| Equity | – | – |
| Revenue | 198,225 | 79,290 |
| Profit for the year | 4,122 | 1,649 |

ii) 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. Before the Transaction, the Group indirectly held 40% equity interest in Hualian GMS. After the completion of the Transaction, the Group indirectly held 60% equity interest in Hualian GMS. Hualian GMS became an indirect subsidiary of the Company *(note 16)*. The Group thus derecognised the jointly-controlled interest in Hualian GMS. On derecognition, the jointly-controlled interest in Hualian GMS was remeasured. The gain on remeasurement of the jointly-controlled interest in Hualian GMS was amounting to HK$261,565,000 approximately.

## 19. GOODWILL

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| **Carrying amount** | | |
| At 1 January | **377,972** | 13,493 |
| Additions through acquisition of a subsidiary *(note 37)* | **–** | 377,972 |
| Disposal | **–** | (13,493) |
| At 31 December | **377,972** | 377,972 |

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Supermarket chain operation | **377,972** | 377,972 |

### Impairment test for cash-generating unit 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 9% (2008: 6.75%) has been used for the value-in-use calculation.

## 19. GOODWILL *(continued)*

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

Key assumptions used for value-in-use calculations:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **%** | % |
| Gross margin | **9.98** | 9.98 |
| Growth rate | **8** | 7.5 |
| Discount rate | **9** | 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 based on value-in-use calculation is higher than its carrying amount. Accordingly, no impairment loss is recognised for the year (2008: Nil).

## 20. AVAILABLE-FOR-SALE INVESTMENTS

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Listed securities, at fair value – Hong Kong | **34,831** | 18,084 |
| Unlisted securities, at cost | **–** | 156 |
| Unlisted investments: | | |
| – Golf club memberships, at cost | **2,761** | 2,761 |
| – Long term equity interest, at cost | **773** | 773 |
| – Long term equity interest, at cost less impairment | **–** | – |
| Total | **38,365** | 21,774 |

## 20. AVAILABLE-FOR-SALE INVESTMENTS *(continued)*

### (a) Listed securities, at fair value – Hong Kong

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 as the financial assets were no longer considered to be held for the purpose of selling or repurchasing in the near term in 2008. 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.

The following table provides details of the remaining balance of the assets reclassified during 2008 as at 31 December 2009 and 31 December 2008:

| | Carrying amount at 31 December 2009 | Fair value at 31 December 2009 | If assets had not been reclassified, fair value gain from the date of reclassification to 31 December 2009 which would have been recognised within | | Income recognised in the statement of comprehensive income |
|---|---|---|---|---|---|
| | | | Income | AFS reserve | |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| For assets reclassified: | | | | | |
| From trading to AFS | 13,231 | 17,592 | 4,361 | – | 4,361 |

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 recognised in the statement of comprehensive income |
|---|---|---|---|---|---|
| | | | Income | AFS reserve | |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| For assets reclassified: | | | | | |
| From trading to AFS | 25,283 | 18,240 | (7,043)* | – | (7,043) |

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

## 20. AVAILABLE-FOR-SALE INVESTMENTS *(continued)*

### (a) Listed securities, at fair value – Hong Kong *(continued)*

In 2009, there were no significant transfers between available-for-sale investments and financial assets at fair value through profit or loss.

### (b) Unlisted investments

*(i) Long term equity interest, at cost*

As at 31 December 2008 and 2009, 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.

*(ii) Long term equity interest, at cost less impairment*

Taicang Huifeng Chemical Fertiliser Company Limited ("Taicang") is a Sino-foreign equity joint venture established in the PRC to be operated for 30 years up to May 2025. The Group has 30% effective interest in Taicang through its subsidiary.

The Group ceased to have significant influence over Taicang Huifeng Chemical Fertiliser Company Limited in 2003. Although the Group maintained legal ownership, there was no director or management appointed to supervise the management of Taicang and the daily management was handed over to other joint venture partners since 2003. Pursuant to paragraph 18 and 19 of HKAS 28, the investment shall be accounted for under HKAS 39 and the carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial measurement as a financial asset. The investment in Taicang was fully impaired in 2003.

## 21. ACCOUNTS RECEIVABLE

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Accounts receivable | **43,755** | 28,055 |

All of 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 42(a).

### (a) Age analysis

The age analysis of accounts receivable at the end of the reporting period is as follows:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Outstanding balances with ages | | |
| Due within 1 month or on demand | **43,348** | 27,794 |
| Due after 1 month but within 3 months | **407** | 261 |
| | **43,755** | 28,055 |

### (b) Accounts receivable that are not impaired

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Neither past due nor impaired | **43,755** | 28,055 |

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.

## 22. SHORT TERM LOANS RECEIVABLE

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Loans advanced | **139,174** | – |
| Repayment during the year | **(87,483)** | – |
| Exchange adjustment | **674** | – |
| Balance carried forward | **52,365** | – |

The Group offers loans secured by tangible personal property, such as real estate, commonly known as short term loans. A typical short term loan generally has a term of 30 days.

### (a) Age analysis

The age analysis of short term loans receivable at the end of the reporting period is as follows:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Outstanding balances with ages | | |
| Due within 1 month or on demand | **52,365** | – |

### (b) Short term loans receivable

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Neither past due nor impaired | **52,365** | – |

Short term loans receivable that were neither past due nor impaired relate to recognised and creditworthy borrowers for whom there was no recent history of default.

(c) All of the Group's short term loans receivable in the PRC were denominated in RMB. The short term loans receivable in the PRC carry interest plus service charge at a monthly effective rate of 0.5% mark up over the 6-month bank lending rate that is announced by the People's Bank of China.

## 23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Listed securities – Hong Kong | **2,356** | – |
| Listed securities – PRC | **267** | – |
| | **2,623** | – |

## 24. INVENTORIES

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Commodities held for sale | **222,949** | 219,514 |

As at 31 December 2009, none of the inventories were carried at net realisable value (2008: Nil).

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Carrying amount of inventories sold | **1,823,755** | 1,599,691 |

## 25. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** **HK$'000** | 2008 HK$'000 | **2009** **HK$'000** | 2008 HK$'000 |
| Other loan receivable | **28,786** | 45,439 | **–** | – |
| Less: Allowance for doubtful debt | **(6,365)** | (23,018) | **–** | – |
| Other loan receivable, net | **22,421** | 22,421 | **–** | – |
| Receivables from store display income | **130,082** | 104,158 | **–** | – |
| Others | **61,428** | 79,543 | **1,013** | 1,028 |
| Loan and receivables | **213,931** | 206,122 | **1,013** | 1,028 |
| Trade and deposits paid | **142,209** | 80,993 | **–** | – |
| Prepayments | **24,496** | 22,782 | **294** | 95 |
| Utility and sundry deposits | **743** | 815 | **741** | 724 |
| VAT and other tax recoverables | **20,537** | 21,143 | **–** | – |
| | **401,916** | 331,855 | **2,048** | 1,847 |
| Less: Long-term prepaid rent and rental deposit* | **(7,516)** | (8,591) | **–** | – |
| | **394,400** | 323,264 | **2,048** | 1,847 |

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

Impairment losses in respect of other loan receivable 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 other loan receivable directly *(see note 2(i))*.

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

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| At 1 January | **23,018** | 26,110 |
| Uncollectible amount written off | **–** | (3,092) |
| Reversal of impairment *(note 3)* | **(16,653)** | – |
| At 31 December | **6,365** | 23,018 |

As at 31 December 2009, other loans receivable of the Group amounting to HK$6,365,000 (2008: HK$23,018,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding for more than 1 year.

As at 31 December 2009, other loans receivable of the Group impaired in previous years amounting to HK$16,653,000 was recovered.

The Group does not hold any collateral or other credit enhancements over this balance.

## 26. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

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

## 27. PLEDGED DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Pledged cash deposits | **174** | 339 | **–** | – |

In 2008 and 2009, 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.

## 28. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash at banks/financial institutions and on hand | **649,862** | 516,182 | **1,476** | 1,032 |
| Time deposits at financial institutions | **–** | 34,542 | **–** | 6,315 |
| Cash and cash equivalents in the consolidated statement of cash flows | **649,862** | 550,724 | **1,476** | 7,347 |
| Pledged cash balances against financial assets | **(174)** | (339) | **–** | – |
| Cash and cash equivalents in the consolidated statement of financial position | **649,688** | 550,385 | **1,476** | 7,347 |

Deposits with bank carry interest at market rates of 0.36% (2008: 0.36% to 0.72%) per annum. The directors consider the carrying amounts of cash and cash equivalents at the end of the reporting period approximate to the fair value.

## 29. ACCOUNTS PAYABLE

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Outstanding balances with ages | | |
| Due within 1 month or on demand | **211,118** | 222,075 |
| Due after 1 month but within 3 months | **339,667** | 235,312 |
| | **550,785** | 457,387 |

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

## 30. OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Accrued salaries, wages and benefits | **16,292** | 12,380 | **–** | 20 |
| Accrued expenses | **11,035** | 13,861 | **138** | 336 |
| Others | **38,600** | 49,134 | **–** | – |
| Financial liabilities measured at amortised cost | **65,927** | 75,375 | **138** | 356 |
| Rental and other deposit received | **28,329** | 34,333 | **–** | – |
| Deposits from gift vouchers and membership cards | **381,754** | 258,402 | **–** | – |
| VAT and other tax payables | **3,032** | 2,307 | **–** | – |
| | **479,042** | 370,417 | **138** | 356 |

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.

## 31. BANK BORROWINGS

At the end of the reporting period, all the bank loans of the Group, which were all obtained in PRC and denominated in RMB, are listed as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Within 1 year or on demand | | |
| Bank loans – secured | **4,650** | – |
| Bank loans – unsecured | **147,443** | 169,587 |
| | **152,093** | 169,587 |
| After 1 year but within 2 years | | |
| Bank loans – unsecured | **4,650** | – |
| After 2 years but within 5 years | | |
| Bank loans – unsecured | **13,951** | – |
| After 5 years | | |
| Bank loans – unsecured | **2,495** | – |
| | **21,096** | – |
| | **173,189** | 169,587 |

## 31. BANK BORROWINGS *(continued)*

All of the non-current interest bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowing is expected to be settled within one year.

The directors consider the carrying value of the amounts at the end of the reporting period.

The ranges of effective interest rates on the Group's borrowings are as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Effective interest rates: | | |
| Bank loans – secured | **6.53%** | N/A |
| Bank loans – unsecured | **4.62% – 5.58% per annum** | 6.24% – 6.88% per annum |

The secured bank borrowings were secured by the Group's investment property with a carrying amount of approximately HK$65,893,000 (2008: HK$57,954,000).

## 32. DEFERRED TAXATION

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

| | Intangible assets-trademarks 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 and 1 January 2009 | 41,748 | 203 | 41,951 |
| (Credited)/charged to profit or loss | (1,734) | 1,983 | 249 |
| **At 31 December 2009** | **40,014** | **2,186** | **42,200** |

b) **Withholding tax**

Pursuant to the new PRC EIT Law which took effect from 1 January 2008, a 10% withholding tax was levied on dividends declared to foreign enterprise investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign enterprise investors. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the PRC tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at 31 December 2007 determined based on the relevant PRC tax laws and regulations are exempted from the withholding tax. Deferred tax liabilities of RMB9,154,000 have not been recognised, as the Company controls the dividend policy of the Group's PRC subsidiaries and it has been determined that it is probable that certain of the profits earned by these subsidiaries for the year from 1 January 2008 to 31 December 2009 will not be distributed in the foreseeable future.

## 32. DEFERRED TAXATION *(continued)*

**c)** 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 deferred tax assets in respect of the tax losses of HK$20,844,000 (2008: HK$19,484,000) due to the unpredictability of future profit streams. The unrecognised tax losses, mainly arising from Hong Kong companies, can be carried forward indefinitely.

## 33. SHARE CAPITAL

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **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 | **1,725,902,336** | **172,590** | 1,595,902,336 | 159,590 |
| Issue of new shares *(note a)* | **–** | **–** | 130,000,000 | 13,000 |
| At end of the year | **1,725,902,336** | **172,590** | 1,725,902,336 | 172,590 |

(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.

## 34. 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.

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 10% except seeking separate approval by its shareholders in general meeting for granting further options, however in any case, 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 (including both exercised and outstanding options) shall not exceed 1% of the total issued shares.

## 34. SHARE OPTIONS *(continued)*

### Equity-settled share option schemes *(continued)*

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 the date of grant of the share options to the half past ninth anniversary of the date of grant.

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:

| **Category of grantee** | **Exercise price per share** HK$ | **Date of grant** | **Exercisable period** | **Contractual life of options** |
|---|---|---|---|---|
| Directors | 0.479 | 4 October 2007 | 4 October 2007 to 3 October 2017 | 10 years |
| Employees | 0.126 | 10 January 2005 | 10 January 2005 to 6 June 2014 | 9.5 years |
| | 0.479 | 4 October 2007 | 4 October 2007 to 3 October 2017 | 10 years |

## 34. SHARE OPTIONS *(continued)*

### Equity-settled share option schemes *(continued)*

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

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$** | **Number of options '000** | Weighted average exercise price HK$ | Number of options '000 |
| Outstanding at beginning and end of the year | **0.402** | **87,600** | 0.402 | 87,600 |
| Exercisable at end of the year | **0.402** | **87,600** | 0.402 | 87,600 |

The options outstanding at 31 December 2009 had an weighted average exercise price of HK$0.402 (2008: HK$0.402) and a weighted average remaining contractual life of 7.03 years (2008: 8.03 years).

During the years ended 31 December 2009 and 2008, no share options were granted to directors and employees.

### 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.

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility based on 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 of the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

## 35. RESERVES

### Group

| | Share premium HK$'000 | Share-based compensation reserve HK$'000 | Other comprehensive income: Exchange fluctuation reserve HK$'000 | Other comprehensive income: Fair value reserve HK$'000 | Statutory surplus reserve HK$'000 | Retained earnings HK$'000 | Attributable to owners of the Company HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 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 available-for-sale financial assets | – | – | – | (7,043) | – | – | (7,043) | – | (7,043) |
| Profit for the year | – | – | – | – | – | 247,686 | 247,686 | 8,188 | 255,874 |
| Transfer to reserve | – | – | – | – | 441 | (441) | – | – | – |
| At 31 December 2008 and 1 January 2009 | 287,362 | 16,914 | 11,009 | (7,043) | 747 | 212,561 | 521,550 | 87,647 | 609,197 |
| Exchange adjustment | – | – | 183 | – | – | – | 183 | 175 | 358 |
| Fair value adjustment for available-for-sale financial assets | – | – | – | 16,057 | – | – | 16,057 | – | 16,057 |
| Profit for the year | – | – | – | – | – | 26,303 | 26,303 | 16,311 | 42,614 |
| Transfer to reserve | – | – | – | – | 357 | (207) | 150 | 83 | 233 |
| **At 31 December 2009** | **287,362** | **16,914** | **11,192** | **9,014** | **1,104** | **238,657** | **564,243** | **104,216** | **668,459** |

## 35. RESERVES *(continued)*

### Company

| | Share premium HK$'000 | Share-based compensation reserve HK$'000 | (Accumulated losses)/ Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 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 |
| Profit for the year | – | – | 163,602 | 163,602 |
| At 31 December 2008 and 1 January 2009 | 287,362 | 16,914 | 85,220 | 389,496 |
| Loss for the year | – | – | (11,103) | (11,103) |
| **At 31 December 2009** | **287,362** | **16,914** | **74,117** | **378,393** |

At 31 December 2009, the Company's reserves available for distribution to shareholders as calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance are approximate to HK$74,117,000 (2008: HK$85,220,000).

### 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)* *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).

*(iii)* *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).

## 35. RESERVES *(continued)*

### Nature and purpose of reserves *(continued)*

*(iv) Fair value reserve*

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 2(k).

*(v) 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.

## 36. RETIREMENT BENEFITS SCHEME

The group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries of the Group are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

## 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 was 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 the 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.

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 | 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 interest 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 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 of approximately RMB160 million on 31 January 2008 by independent qualified valuers, 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 end of the reporting period.

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.

## 38. OPERATING LEASE ARRANGEMENTS *(continued)*

### a) As lessor *(continued)*

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Within one year | **32,297** | 29,324 |
| In the second to fifth years, inclusive | **61,090** | 63,156 |
| After the fifth year | **13,937** | 22,415 |
| | **107,324** | 114,895 |

### 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 end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **103,830** | 88,377 | **2,257** | 1,718 |
| In the second to fifth years, inclusive | **364,697** | 319,652 | **2,227** | 747 |
| After the fifth year | **439,635** | 432,667 | **–** | – |
| | **908,162** | 840,696 | **4,484** | 2,465 |

## 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:

| | 2009 HK$'000 | 2008 HK$'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. The rental expenses were fully settled up to each of the year ended 31 December 2008 and 2009.

### b) Compensation of key management personnel of the Group

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Salaries, allowances and other benefits | **3,060** | 3,154 |
| Pension scheme contribution | **12** | 12 |
| Share-based payments expenses | **–** | 2,155 |
| | **3,072** | 5,321 |

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

## 40. BANKING FACILITIES

During 2009, the Group was granted banking facilities aggregating to approximately HK$173,189,000 (2008: HK$169,587,000). A new bank loan amounting to HK$21,096,000 was granted to a subsidiary of the Company in February 2009, which is secured by the investment property *(note 14)*. At 31 December 2009, the banking facilities were fully utilized.

## 41. 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 end of the reporting period 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 higher 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 amount 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 end of the reporting period on market value of 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 the end of each reporting period.

*(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 the end of each reporting period. 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.

## 41. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

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

*(iv) Impairment assessment 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 suitable 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 end of the reporting period. The quoted market price used for financial assets held by the Group is the closing bid price at the end of the reporting period.

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 the end of each reporting period.

*(vi) Write down of inventories*

The management of the Group reviews its inventories at the end of each reporting period 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 the end of each reporting period and make allowance for obsolete items.

*(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.

## 41. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

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

*(viii) Acquired intangible assets*

Acquired intangible assets are trademarks for supermarkets and convenience chain stores operations. They 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 end of the reporting period. 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.

Certain available-for-sale financial assets are stated at cost less impairment. Judgement is required when determining whether an impairment existed. In making this judgement, historical data and factors such as industry and sector performance and financial information regarding the investee are taken into account.

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's major financial instruments include equity investments, borrowings, accounts receivable and accounts payable. 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.

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

### a) Credit risk

(i) As at 31 December 2009, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

(ii) In respect of accounts and other receivables, in order to minimize risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Debts are usually due within 30 days from the date of billing.

(iii) In respect of accounts receivable, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had no significant concentrations of credit risk which individual accounts and other receivables balance exceeds 10% of the total accounts and other receivables at the end of the reporting period.

(iv) The majority of the Group's investments are liquid securities listed on the recognised stock exchanges. No exposure to credit risk is expected.

(v) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from accounts and other receivables are set out in notes 21, 22 and 25.

### b) 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 significant source of liquidity.

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

### b) Liquidity risk *(continued)*

The following liquidity table set out the remaining contractual maturities at the end of the reporting period of the Group's non-derivative 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 and the Company required to pay:

**The Group**

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
| **Non-derivative financial liabilities** | | | | | | | | |
| Bank and other borrowings | | | | | | | | |
| – variable rates | 159,987 | 22,191 | 182,178 | 173,189 | 173,759 | – | 173,759 | 169,587 |
| Accounts and other payables | 1,029,827 | – | 1,029,827 | 1,029,827 | 827,804 | – | 827,804 | 827,804 |
| | 1,189,814 | 22,191 | 1,212,005 | 1,203,016 | 1,001,563 | – | 1,001,563 | 997,391 |

**The Company**

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | Total contractual undiscounted cash flow HK$'000 | Carrying amount HK$'000 |
| **Non-derivative financial liabilities** | | | | | | | | |
| Other payables | 138 | – | 138 | 138 | 356 | – | 356 | 356 |

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

### c) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 31 for details of these borrowings)

*(i) Interest rate profile*

The following table details the interest rate profile of the Group's and the Company's borrowings at the end of the reporting period:

| | The Group | | | |
|---|---|---|---|---|
| | **2009** | | 2008 | |
| | **Effective interest rates %** | **HK$'000** | Effective interest rates % | HK$'000 |
| Variable rate Borrowings: Bank loans | **7.20%** | **173,189** | 6.58% | 169,587 |
| Variable rate bank balances and deposits | **0.74%** | **649,862** | 1.29% | 550,724 |

*(ii) Sensitivity analysis*

All of the bank loans of the Group which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

At 31 December 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank balances and deposits and bank borrowings, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately HK$1,299,000 (2008: HK$1,165,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for variable rate interest bearing financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual end of the reporting period. The analysis is performed on the same basis for 2008.

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

### d) Currency risk

*i) Exposure to currency risk*

The following table details the Group's exposure at the end of the reporting period 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. The currency giving rise to this risk is primarily United States dollars. The Company does not expose to material currency risk at the end of the reporting period.

**The Group**

| | Exposure to foreign currencies (expressed in Hong Kong dollars) | |
|---|---|---|
| | United States dollars | |
| | **2009** | 2008 |
| | **'000** | '000 |
| Cash and cash equivalents | **919** | 30 |

*ii) Sensitivity analysis*

The following table indicates the approximate change in the Group's profit after tax and retained profits in response to reasonably possible changes in the foreign exchange rate to which the Group has significant exposure at the end of the reporting period.

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **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 |
| United States dollars | **5%** | **38** | 5% | 1 |
| | **(5)%** | **(38)** | (5)% | (1) |

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

### d) Currency risk *(continued)*

*ii) Sensitivity analysis (continued)*

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the Group's exposure to currency risk for both derivative and 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 end of annual reporting period. 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. The analysis is performed on the same basis for 2008.

*iii)* RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

All the revenue-generating subsidiaries of the Company are transacted in RMB. Depreciation or appreciation of the RMB against foreign currencies can affect the Group's results. The Group did not hedge its currency exposure.

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

### e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as financial assets at fair value through profit or loss *(see note 23)* and available-for-sale investments *(see note 20)*.

The Group's listed investments are listed on the recognised stock exchanges. Decisions to buy or sell financial assets at fair value through profit or loss are based on daily monitoring of the performance of individual securities compared to that of the Index and other industry indicators, as well as the Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

At 31 December 2009, it is estimated that an increase/(decrease) of 10% (2008: 10%) in the relevant stock market index (for listed investments), the price/earning ratios of comparable listed companies (for unquoted investments) as applicable, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profit as follows:

**The Group**

| | **2009** | **Effect on profit after tax and retained profits HK$'000** | 2008 | Effect on profit after tax and retained profits HK$'000 |
|---|---|---|---|---|
| **Change in the relevant equity price risk variable:** | | | | |
| Increase | **10%** | **3,390** | 10% | 1,787 |
| Decrease | **(10%)** | **(3,390)** | (10%) | (1,787) |

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

### e) Equity price risk *(continued)*

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2008.

### f) Fair values

*i) Financial instruments carried at fair value*

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

### f) Fair values *(continued)*

*i) Financial instruments carried at fair value (continued)*

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | Level 1 | Level 2 | Level 3 | Total |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Assets** | | | | | | | | |
| Financial assets at fair value through profit or loss | **2,623** | **–** | **–** | **2,623** | – | – | – | – |
| Available-for-sale investment | **34,831** | **–** | **–** | **34,831** | 18,084 | – | – | 18,084 |
| | **37,454** | **–** | **–** | **37,454** | 18,084 | – | – | 18,084 |

During the year there were no significant transfers of instruments from Level 1 to Level 2 or 3.

*ii) Fair value of financial instruments carried at other than fair value*

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2008 and 2009.

### g) Capital 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.

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

### g) Capital management *(continued)*

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-to-equity ratios at 31 December 2008 and 31 December 2009 are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Interest-bearing bank loans | **173,189** | 169,587 | **–** | – |
| Less: Cash and cash equivalents | **(649,688)** | (550,385) | **(1,476)** | (7,347) |
| | **(476,499)** | (380,798) | **(1,476)** | (7,347) |
| Total equity | **841,049** | 781,787 | **550,983** | 562,086 |

As at 31 December 2008 and 31 December 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.

### h) 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 end of the reporting period 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.

## 43. ULTIMATE CONTROLLING PARTY

The directors regard Mr. Cheung Siu Lam through his direct shareholding in the Company as being the ultimate controlling party. The Company does not have any parent Company.

## 44. COMPARATIVE FIGURES

As a result of the application of HKFRS 8, Operating segments, certain comparative figures have been adjusted to conform to the current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009.

## 45. EVENTS AFTER THE REPORTING PERIOD

### Disposal of subsidiaries

On 24 March 2010, K.P.B. Marketing Limited ("K.P.B"), an indirect wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Bailian Hong Kong Limited, pursuant to which K.P.B. has conditionally agreed to sell and Bailian Hong Kong Limited has conditionally agreed to purchase the entire issued share capital of K.P.I. (BVI) Retail Management Company Limited. The consideration for the disposal is RMB441,760,000 (equivalent to approximately HK$502 million), which shall be satisfied in cash in the following manner:

(a) RMB132,528,000 (equivalent to approximately HK$150.6 million) as initial deposit was paid on 30 March 2010;

(b) RMB88,352,000 (equivalent to approximately HK$100.4 million) shall be payable as further deposit within three days upon despatch of the notice convening the Extraordinary General Meeting to the shareholders; and

(c) RMB220,880,000 (equivalent to approximately HK$251 million) shall be payable upon completion of the agreement.

K.P.I. (BVI) Retail Management Company Limited is an investment company incorporated in the British Virgin Islands with limited liability. The assets of the K.P.I. (BVI) Retail Management Company Limited comprise its 100% equity interests in Bestjoy International Limited (which is an investment company incorporated in the British Virgin Islands with limited liability holding 20% equity interests in Hualian GMS) and its 40% direct equity interests in Hualian GMS ("Disposal Group"). Hualian GMS is a sino-foreign joint venture established in the PRC principally engaged in retail business in the PRC including supermarkets and convenience chain stores, sales of food products and provision of short term financing services.

Hualian GMS was initially established by the Group as a jointly controlled entity in 1998. Subsequently, the Group acquired an additional 20% equity interests in Hualian GMS in January 2008, as a result of which the Group gained control of Hualian GMS and extended its supermarket business in the PRC. Hualian GMS operates 18 supermarket outlets mainly in Shanghai and nearby provinces such as Jiangsu and Zhejiang. Although Hualian GMS has been making profits in past years, the Board of directors considered competition in the retail business in Shanghai as being very intense and the Group would like to devote more time and resources to strengthening its market leadership in its convenience store business and other business in Beijing. The disposal represents an opportunity for the Group to realize part of its investment by deploying its time and resources to its convenience store business in Beijing and other cities in the PRC in order to maintain or even enhance its market share.

| | HK$'000 |
|---|---|
| Consideration received and receivable in cash and cash equivalents | 502,000 |

## 45. EVENTS AFTER THE REPORTING PERIOD *(continued)*

### Disposal of subsidiaries *(continued)*

Analysis of asset and liabilities to be disposed of in respect of the Disposal Group are summarised below:

| | **As at 31 December 2009 Carrying amount** HK$'000 |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 68,770 |
| Intangible assets | 160,058 |
| Goodwill | 377,972 |
| Long term lease prepayment | 7,516 |
| **Current assets** | |
| Inventories | 206,066 |
| Financial assets at fair value through profit and loss | 267 |
| Other receivables, deposits and prepayments | 357,307 |
| Cash and cash equivalents | 622,012 |
| **Current liabilities** | |
| Trade payables | (507,239) |
| Other payables, deposits received and accruals | (493,925) |
| Short term bank loans – unsecured | (147,442) |
| **Non-current liabilities** | |
| Deferred taxation | (40,014) |
| **Non-controlling interest** | (96,345) |
| **Net assets of Disposal Group** | 515,003 |
| **Loss on disposal of subsidiaries** | |
| Consideration received and receivable (as stated above) | 502,000 |
| Net assets disposal of | (515,003) |
| | (13,003) |

## 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 | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Results** | | | | | |
| Revenue | **2,073,083** | 1,777,062 | 662,288 | 392,413 | 316,246 |
| Profit/(loss) for the year | **42,614** | 255,874 | 6,317 | 2,315 | (23,251) |
| Attributable to: | | | | | |
| Owners of the Company | **26,303** | 247,686 | 6,330 | 2,316 | (23,251) |
| Non-controlling interest | **16,311** | 8,188 | (13) | (1) | – |
| | **42,614** | 255,847 | 6,317 | 2,315 | (23,251) |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Assets and liabilities** | | | | | |
| Total assets | **2,087,814** | 1,821,954 | 715,097 | 555,185 | 313,177 |
| Total liabilities | **(1,246,765)** | (1,040,167) | (327,365) | (364,803) | (139,500) |
| Non-controlling interest | **(104,216)** | (87,647) | (9,710) | (9,723) | – |
| Balance of total equity attributable to owners of the Company | **736,833** | 694,140 | 378,022 | 180,659 | 173,677 |