K.P.I. COMPANY LIMITED

(Stock Code : 605)

Interim Report 2010

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CORPORATE INFORMATION

DIRECTORS

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

Non-Executive Director
Mr. Liu Hui

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

COMPANY SECRETARY
Mr. Chung Chin Keung FCCA, FCPA, ACA

AUDITORS
CCIF CPA Limited

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

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

PRINCIPAL BANKERS
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New Point Financial Communications Limited

STOCK CODE: 605

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FINANCIAL HIGHLIGHTS

The Board of Directors (the "Board") of K.P.I Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2010 (the "Reporting Period") together with the comparative figures.

- Revenue for the Reporting Period was approximately HK$1,083.1 million, which represents an increase of approximately 3.2%;

- Gross profit for the Reporting Period was approximately HK$122.1 million, which represents an increase of approximately 10.9%; and

- Net profit attributable to owners of the Company for the Reporting Period increased to approximately HK$24.7 million.

- Earnings per share were approximately HK1.43 cents (2009: HK1.08 cents) for the six months ended 30 June 2010.

- The Directors do not recommend payment of dividend for the six months ended 30 June 2010 (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

During the period ended 30 June 2010, the Company recorded revenue of approximately HK$1,083.1 million, an increment of 3.2% as compared with the same period last year (2009: HK$1,049.1 million). Gross profit for 2010 rose by 11% to approximately HK$122.1 million as compared with HK$110.0 million in 2009. Net profit attributable to owners of the Company was approximately HK$24.7 million, representing a 32.2% increase as compared with HK$18.7 million in 2009. Basic earnings per share was HK1.43 cents (2009: HK1.08 cents per share).

On 24 March 2010, K.P.B. Marketing Limited ("K.P.B."), an indirect wholly-owned subsidiary of the Company, entered a conditional sale and purchase agreement with Best Links (HK) Co., Limited to dispose of the entire issued share capital in K.P.I. (BVI) Retail Management Company Limited, a company incorporated in the British Virgin Islands with limited liability which directly and indirectly holds 60% of equity interests in Hualian GMS Shopping Center Co., Ltd ("Hualian GMS") at a consideration of approximately HK$502 million. Details of the disposal were set out in the Company's circular to the shareholders dated 14 May 2010. The disposal was approved by independent shareholders at an extraordinary general meeting held on 21 June 2010 and the transaction was completed on 19 August 2010.

Despite the profits that Hualian GMS had been generating in past years, the Group considered competition in the retail business in Shanghai as being very intense, leading to a saturated market. The sales per square metre of the hypermarket chains in Shanghai decreased considerably in 2009. Hualian GMS faced intense competition despite its leading position in Shanghai. The Group considered the return from its divestment attractive, and would like to devote more time and resources to strengthening its market leadership in its Hi-24 convenience store business and other businesses in Beijing. Hi-24 is a successful convenience chain store in Beijing. As at the reporting date, there were over 170 Hi-24 convenience stores, occupying over 30% market share. The Hi-24 convenience chain store is now leading in the market in terms of number of outlets. According to the information provided by AC Nielson, an international well-known marketing research organization, Hi-24 is one of the most influential and high brand value growth convenience store systems in Beijing. Hi-24 possesses enormous sales potential and sales value. At present Hi-24 convenience stores provide a wide range of services including food services, public services, B2B electronic commerce and catalogue shopping, as well as the import and distribution of lifestyle products. Through this chain store, the Company will provide unique and comprehensive modern city business services to customers in Beijing and will become a super lifestyle consumer goods distributor and service provider in the PRC. Although there has been growth in sales revenue and gross profit, Hi-24 convenience stores also face a number of challenges and issues, for example, rise in rent and salaries. However, synergies will be enhanced in the network through additions in the number of stores. The Company will increase earnings through expansion of catalogue sales, media promotion services and valueadded services for digital products. At the same time, the Company will devote more efforts to staff administration so as to build a team of base level cadres and a successive supply of human resources. This will lay a sound foundation for expansion in the next phase. Upon enhancement of operational standards and improvement in capabilities of operation and management, franchising will be an important direction for future development. The Group plans to expand the Hi-24 chain store to 300 stores within three years.

Results of our new financing services business were encouraging. Revenue for the 6 months period reached about HK$9.4 million and net profit for the period was about HK$3.2 million. The Board believes that there would be much room for expansion of the loans provision business and this business segment would be a major profit contributor in future.

The Group does not exclude the possibility of seeking appropriate strategic investment opportunities in future in order to improve capital returns.

Financial Review

Revenue and Net Profit

During the Reporting Period, the Group's revenue reached approximately HK$1,083,139,000, and net profit after tax attributable to owners of the Company was approximately HK$24,689,000. Gross margin and net margin of the Group were about 11.3% and 2.3% respectively. A comparative breakdown of the revenue and net profit attributable to owners of the Company from continuing operations and discontinued operations are set forth in the following table for the period indicated:

	Continuing Operations	**Discontinued Operations**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	102,077	981,062	1,083,139
Net profit attributable to owners of the Company	20,507	4,182	24,689

Pursuant to the Cancellation Agreement dated 28 January 2010, the Group received a compensation fee of approximately HK$22.8 million from the Guarantor. The compensation income received in the Reporting Period is a non-recurring income for the Group and the Directors expect occurrence of similar sources of income would be unlikely in future. Selling and administrative expenses were, in aggregate, approximately HK$245,693,000, at around 22.7% of revenue. Staff related costs and rental expenses were about HK$88,562,000 and HK$55,292,000 respectively, at approximately 8.2% and 5.1% of total revenue.

Capital Structure, Liquidity and Financial Resources

As at 30 June 2010, the Group had non-current assets amounting to approximately HK$693,054,000 (31 December 2009: HK$721,270,000). Non-current assets mainly include property, plant and equipment of approximately HK$58,020,000 (31 December 2009: HK$70,187,000); goodwill and intangible assets of approximately HK$534,979,000 (31 December 2009: HK$538,451,000); investment property of approximately HK$66,974,000 (31 December 2009: HK$65,893,000); available-for-sale investments of approximately HK$23,998,000 (31 December 2009: HK$38,365,000). As at 30 June 2010, the Group had current assets amounting to approximately HK$1,555,614,000 (31 December 2009: HK$1,366,544,000). Current assets mainly comprised cash and bank balances of approximately HK$622,205,000 (31 December 2009: HK$649,688,000); inventories of approximately HK$325,672,000 (31 December 2009: HK$222,949,000); other receivables, deposits and prepayment of approximately HK$443,744,000 (31 December 2009: HK$394,400,000); financial assets at fair value through profit or loss of approximately HK$24,347,000 (31 December 2009: HK$2,623,000). As at 30 June 2010, the Group had current liabilities amounting to approximately HK$1,322,784,000 (31 December 2009: HK$1,183,469,000). Current liabilities mainly comprised short term bank loans of approximately HK$119,327,000 (31 December 2009: HK$152,093,000); accounts payable of approximately HK$448,292,000 (31 December 2009: HK$550,785,000); other payables, deposits received and accruals of approximately HK$753,790,000 (31 December 2009: HK$479,042,000). Other payables, deposits received and accruals included approximately HK$252.3 million received from Best Links (HK) Co., Limited as the initial and further deposits for the disposal of KPI (BVI) Retail Management Company Limited. The Group has applied sound and flexible financial management, and has financed its business development by a combination of internal resources, equity financing and bank borrowings. Current ratio, defined as current assets over current liabilities, was 1.18. The Group monitors capital on the basis of the debt-to-equity ratio, which is calculated as net debt divided by total equity. As at 30 June 2010, both the Group and the Company had no net debt.

Management of Financial Risk Factors

The activities of the Group expose it to a variety of financial risks, including foreign exchange risk, cash flow and fair value interest rate risk, credit risk, and liquidity risk. These risks are reviewed periodically to ensure there is no significant impact on the Group's financial performance.

(i) Foreign Exchange Risk

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

(ii) Interest Rate Risk

The Group's statement of comprehensive income is affected by changes in interest rates due to the impact of such changes on interest income and expenses from bank balances, interest-bearing bank loans and other interest-bearing borrowings. The Group's policy is to obtain the most favourable interest rates available. As at 30 June 2010 and 31 December 2009, the Group did not have interest-bearing financial assets and long-term debt obligations with floating interest rates. Accordingly, the Group has no significant interest rate risk.

(iii) Credit Risk

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

(iv) Liquidity Risk

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

During the Reporting Period, the Group did not use any financial instrument for hedging purpose and the Group did not have any hedging instrument outstanding in the six months ended 30 June 2010.

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

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

The Group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as net debt divided by total equity. Total equity is calculated as interest-bearing bank loans less cash and cash equivalents.

As at 30 June 2010, both the Group and the Company had no net debt. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

Fair Value Estimation

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

Employee and Remuneration Policies

As at 30 June 2010, the Group had approximately 4,500 employees in Mainland China and Hong Kong. The Group continued to recruit high calibre people and provided continuing education and training for employees to help upgrade their skills and knowledge as well as develop team spirit on an on-going basis. For the Reporting Period, total staff costs were about HK$88,562,000. Competitive remuneration packages and performance-based bonuses are structured to commensurate with individual responsibilities, qualifications, experience and performance.

Contingent Liabilities

As at 30 June 2010, the Group had no significant contingent liabilities.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	(Unaudited) For the six months ended 30 June 2010 HK$'000	2009 HK$'000
Continuing operations			
Revenue	3	**102,077**	80,016
Cost of sales		**(71,528)**	(62,405)
Gross profit		**30,549**	17,611
Other revenue	3	**38,790**	31,473
Other net income	3	**9,866**	2,230
Selling and distribution expenses		**(27,398)**	(23,248)
Administrative expenses		**(25,993)**	(12,629)
Finance costs		**(2,802)**	(580)
Profit before taxation	4	**23,012**	14,857
Income tax	5	**(2,097)**	(398)
Profit for the period from continuing operations		**20,915**	14,459
Discontinued operations	7		
Profit for the period from discontinued operations		**9,283**	15,387
Profit for the period		**30,198**	29,846
Other comprehensive income:			
Exchange differences on translating of financial statements of overseas subsidiaries		**2,873**	847
(Loss)/gain on revaluation of available-for-sale financial assets		**(3,720)**	8,660
Transfer to statement of comprehensive income for disposal of available-for-sale financial assets		**(5,687)**	(2)
Other comprehensive income for the period		**(6,534)**	9,505
Total comprehensive income for the period		**23,664**	39,351

	Note	(Unaudited) For the six months ended 30 June 2010 HK$'000	2009 HK$'000
Profit attributable to:			
Owners of the Company			
Profit for the period from continuing operations		**20,507**	10,829
Profit for the period from discontinued operations		**4,182**	7,846
Profit for the period attributable to owners of the company		**24,689**	18,675
Non-controlling interests			
Profit for the period from continuing operations		**409**	3,630
Profit for the period from discontinued operations		**5,100**	7,541
Profit for the period attributable to non-controlling interests		**5,509**	11,171
Total comprehensive income attributable to:			
Owners of the Company		**18,155**	28,180
Non-controlling interests		**5,509**	11,171
		23,664	39,351
Earnings per share (in currency unit)	*6*		
– Basic		**HK1.43 cents**	HK1.08 cents
– Diluted		**HK1.43 cents**	HK1.08 cents
Dividends	*16*	**Nil**	Nil

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Non-current assets			
Property, plant and equipment		**58,020**	70,187
Land lease premium		**869**	858
Investment property	8	**66,974**	65,893
Intangible assets		**157,007**	160,479
Goodwill	9	**377,972**	377,972
Long term lease prepayment		**8,214**	7,516
Available-for-sale investments		**23,998**	38,365
		693,054	721,270
Current assets			
Land lease premium		**23**	23
Accounts receivable	10	**41,176**	43,755
Short term loans receivable		**43,272**	52,365
Financial assets at fair value through profit or loss		**24,347**	2,623
Inventories		**375,672**	222,949
Other receivables, deposits and prepayments		**443,744**	394,400
Tax recoverable		**–**	567
Pledged deposits		**5,175**	174
Cash and cash equivalents		**622,205**	649,688
		1,555,614	1,366,544
Current liabilities			
Tax payable		**1,375**	1,549
Accounts payable	11	**448,292**	550,785
Other payables, deposits received and accruals		**753,790**	479,042
Short term bank loans	12	**119,327**	152,093
		1,322,784	1,183,469
Net current assets		**232,830**	183,075
Total assets less current liabilities		**925,884**	904,345

	Note	30 June 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Non-current liabilities			
Long term bank loan	12	**18,971**	21,096
Deferred tax liabilities	5	**42,200**	42,200
		61,171	63,296
NET ASSETS		**864,713**	841,049
Capital and reserves			
Share capital	13	**172,590**	172,590
Reserves		**581,727**	564,243
Total equity attributable to owners of the Company		**754,317**	736,833
Non-controlling interests		**110,396**	104,216
TOTAL EQUITY		**864,713**	841,049

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

				Other comprehensive income						
	Share capital	Share premium	Share-based compensation reserve	Exchange fluctuation reserve	Fair value reserve	Statutory surplus reserve	(Accumulated loss)/ retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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
Balance at 1 January 2010 (Audited)	172,590	287,362	16,914	11,192	9,014	1,104	238,657	736,833	104,216	841,049
Changes in equity for the six months ended 30 June 2010:										
Total comprehensive income for the period				2,202	(9,407)		24,689	17,484	6,180	23,664
Balance at 30 June 2010	172,590	287,362	16,914	13,394	(393)	1,104	263,346	754,317	110,396	864,713

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	(Unaudited) Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Net cash inflow/(outflow) from operating activities	**31,228**	(159,546)
Net cash outflow from investing activities	**(16,764)**	(26,999)
Net cash (outflow)/inflow from financing activities	**(34,891)**	25,213
Decrease in cash and cash equivalents	**(20,427)**	(161,332)
Effect of foreign exchange rate changes	**(2,055)**	(710)
Cash and cash equivalents at beginning of period	**649,862**	550,724
Cash and cash equivalents at end of period	**627,380**	388,682
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	**622,205**	388,682
Pledged deposits	**5,175**	–
	627,380	388,682

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The Group is principally engaged in the retail business, sale of food products and provisions of short term financing services in the PRC.

The unaudited condensed consolidated interim financial information for the Reporting Period are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2009, except for the adoption of the following new and revised Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that affect the Group for the current period's financial statements. Where applicable, the 2009 comparatives have been amended as required.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

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.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued by not yet effective:

HKFRSs (Amendments)	Improvements to IFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 9	Financial Instruments[5]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

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

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

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specially, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Company's financial assets.

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

2. SEGMENT INFORMATION

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

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

The Group is principally engaged in the retail business in the PRC. The Group's chief operating decision maker regularly review their consolidated financial information to assess the performance and make resource allocation decisions. Accordingly, there is only one operating segment for the Group and no segmental revenue, results, assets and liabilities as presented.

The operations discontinued in the current period were reported as separate business segments, which are described in detail in Note 7.

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 period ended 30 June 2009 and 2010.

3. REVENUE, OTHER REVENUE AND OTHER INCOME

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

	(Unaudited) For the six months ended 30 June 2010 HK$'000	2009 HK$'000
Revenue		
Sales of merchandise	–	309
Supermarket chain operations	981,062	969,114
Convenience store chain operations	92,727	79,708
Interest income on provision of short term financing service	1,294	–
Short term financing service income	8,056	–
	1,083,139	1,049,131
Other revenue		
Dividend income	93	164
Bank interest income	9	155
Other interest income	20	858
Income from government subsidies	906	600
Gross rental income from investment property	3,732	3,337
Gross rental income from leasing of shop premises	23,636	20,143
Promotion and store display income from suppliers	104,915	113,517
Other	456	1,249
Compensation income	22,854	–
Reverse impairment loss on other receivables	–	12,000
Other net income		
Gain on sales of marketable securities	374	1,012
Gain on realisation of share options	841	199
Gain on sales of available-for-sale financial assets	9,063	–
Exchange gain, net	10	–
Change in fair value of financial assets at fair value through profit or loss, net	(95)	1,019
	166,814	154,253

4. PROFIT FROM OPERATIONS

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

	(Unaudited) For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Auditor's remuneration	**500**	677
Amortisation of land lease premium	**12**	12
Amortisation of intangible assets	**3,472**	3,476
Cost of inventories sold	**961,078**	939,104
Depreciation	**13,024**	12,738
Operating lease payments	**55,292**	53,780
Staff cost	**88,562**	71,471
Loss on disposal of property, plant and equipment	**–**	3,560

5. INCOME TAX

	(Unaudited) For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Current Taxation		
Hong Kong profits tax (under provision in previous years)	**316**	–
PRC enterprise income tax	**2,776**	1,831
Deferred taxation	**–**	(17)
Tax charge for the period	**3,092**	1,814

5. INCOME TAX *(continued)*

Hong Kong profits tax has been provided for at the rate of 16.5% (2009: 16.5%) on the estimated net assessable profits for the Reporting Period.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2009: 25%).

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

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

	Identifiable assets-trademark *HK$'000*	Revaluation of investment property *HK$'000*	Total *HK$'000*
Deferred tax arising from:			
At 1 January 2010	40,014	2,186	42,200
(Credited)/charged to profit or loss	–	–	–
At 30 June 2010	**40,014**	**2,186**	**42,200**

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

The Group has not recognised the deferred tax assets in respect of the tax losses of HK$19,484,000 (31 December 2009: HK$20,844,000) due to unpredictability to future profit streams. The unrecognised tax losses, mainly arising from companies incorporated in Hong Kong, can be carried forward indefinitely.

6. EARNINGS PER SHARE

a) *Basic earnings per share*

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

	(Unaudited) For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Profit:		
Profit attributable to owners of the Company	**24,689**	18,675
	Number of shares	
Shares:		
Issued ordinary shares at 1 January and 30 June	**1,725,902,336**	1,725,902,336

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 dilative effect caused by the share options granted under the share options scheme assuring they were fully exercised.

	2010	2009
Weighted average number of shares (diluted):		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,725,902,336**	1,725,902,336
Effect of deemed issue of shares under the Company's share options scheme	**6,311,187**	3,433,215
Weighted average number of ordinary share (diluted)	**1,732,213,523**	1,729,335,551

7. DISCONTINUED OPERATIONS

Analysis of profit for the period from discontinued operations

The combined results of the discontinued operations (i.e. K.P.I. (BVI) Retail Management Company Limited, Bestjoy International Limited & Hualian GMS) included in the consolidated statement of comprehensive income and consolidated statement of cash flows are set out below. The comparative profit and cash flow from discontinued operations have been re-presented to include those operations classified as discontinued in the current period.

	(Unaudited) For the six months ended 30 June	
	2010	2009
	HK$	*HK$*
Profit for the period from discontinued operations		
Revenue	**981,062**	969,114
Cash of sales	**(889,551)**	(876,698)
Other revenue and income	**118,158**	123,947
Selling and distribution expenses	**(95,919)**	(63,859)
Administrative expenses	**(99,849)**	(133,472)
Finance cost	**(3,622)**	(2,230)
Profit before taxation	**10,279**	16,802
Attributable income tax expense	**(996)**	(1,415)
	9,283	15,387
Non controlling interest	**(5,101)**	(7,542)
Profit for the period from discontinued operations (attributable to owners of the Company)	**4,182**	7,845
Profit for the period from discontinued operations include the following:		
Depreciation and amortisation	**16,270**	15,972
Cash flow from discontinued operations		
Net cash inflows from operating activities	**113,780**	101,959
Net cash outflows from investing activities	**(33,271)**	(35,020)
Net cash outflows from financing activities	**(55,209)**	(3,944)
Net cash inflows	**25,300**	63,995

8. INVESTMENT PROPERTY

	HK$'000
At valuation	
At 1 January 2010 (audited)	65,893
Exchange adjustment	1,081
At 30 June 2010 (unaudited)	66,974

9. GOODWILL

	HK$'000
Cost	
At 1 January 2010 (audited)	379,818
At 30 June 2010 (unaudited)	379,818
Accumulated impairment	
At 1 January and 30 June 2009	1,846
Carrying amount	
At 30 June 2010 (unaudited)	377,972

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

	30 June 2010 (Unaudited) ***HK$'000***	31 December 2009 (Audited) *HK$'000*
Trading of chemical fertiliser		
Balance brought forward	**1,846**	1,846
Less: Impairment	**(1,846)**	(1,846)
Carrying amount carried forward	**–**	–
Supermarket chain operations	**377,972**	377,972

9. GOODWILL *(continued)*

Impairment tests for cash-generating units containing goodwill

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cashflow beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. Discount rate of 9% (2009: 9%) has been used for the value-in-use calculation.

Key assumptions used for value-in-use calculations:

	Group	
	2010	2009
	%	*%*
Gross margin	**9.98**	9.98
Growth rate	**8**	8
Discount rate	**9**	9

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

Based on the impairment tests performed, the recoverable amount of the CGU is higher than its carrying amount based on value-in-use calculation. Accordingly, no impairment loss is recognised for the year (2009: Nil).

10. ACCOUNTS RECEIVABLE

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

	30 June 2010 (Unaudited)	31 December 2009 (Audited)
	HK$'000	*HK$'000*
Outstanding balances with ages:		
Due within 1 month or on demand	**41,098**	43,348
Due after 1 month but within 3 months	**78**	407
	41,176	43,755

Note:

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

11. ACCOUNTS PAYABLE

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

	30 June 2010 (Unaudited) *HK$'000*	31 December 2009 (Audited) *HK$'000*
Outstanding balances with ages:		
Due within 1 month or on demand	**218,388**	211,118
Due after 1 month but within 3 months	**229,904**	339,667
	448,292	550,785

Note:

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

12. 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	
	30 June 2010 (Unaudited) *HK$'000*	31 December 2009 (Audited) *HK$'000*
Within 1 year or on demand		
Bank loans – secured (from continuing operations)	**4,700**	4,650
Bank loans – unsecured (from discontinued operations)	**114,627**	147,443
	119,327	152,093
After 1 year but within 5 years		
Bank loans – secured (from continuing operations)	**18,971**	21,096
	138,298	173,189

The secured bank borrowings were secured by the Group's investment property with a carrying amount of approximately HK$66,974,000 (2009: 65,893,000) The fair value of the Group's bank loans as at 30 June 2010 approximated their corresponding carrying amounts.

13. SHARE CAPITAL

	30 June 2010 (Unaudited)		31 December 2009 (Audited)	
	No. of shares	*HK$'000*	*No. of shares*	*HK$'000*
Authorised				
Ordinary share of HK$0.10 each	**4,000,000,000**	**400,000**	4,000,000,000	400,000
Issued and fully paid				
At 31 December 2009 and 1 January 2010	**1,725,902,336**	**172,590**		
At 30 June 2010	**1,725,902,336**	**172,590**		

14. OPERATING LEASE COMMITMENT

(a) As lessor

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

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

	30 June 2010 (Unaudited) *HK$'000*	31 December 2009 (Audited) *HK$'000*
Within one year	**33,847**	32,297
In the second to fifth years, inclusive	**53,516**	61,090
After the fifth year	**12,247**	13,937
	99,610	107,324

14. OPERATING LEASE COMMITMENT *(continued)*

(b) As lessee

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

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

	30 June 2010 (Unaudited) *HK$'000*	31 December 2009 (Audited) *HK$'000*
Within one year	**121,449**	103,830
In the second to fifth years, inclusive	**375,463**	364,697
After the fifth year	**405,056**	439,635
	901,968	908,162

15. RELATED PARTY TRANSACTIONS

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

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

		(Unaudited) For the six months ended 30 June	
	Note	**2010** ***HK$'000***	2009 *HK$'000*
Rental expenses to a company controlled by directors	*(i)*	**332**	498

Note:

(i) Rental expenses for directors was paid to a company controlled by them. The monthly rental of HK$83,000 was calculated by reference to open market rental rate. The payment ceased on 30 April 2010.

15. RELATED PARTY TRANSACTIONS *(continued)*

(b) Compensation of key management personnel of the Group

	(Unaudited) For the six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Salaries, allowances and other benefits	**1,583**	1,445
Pension scheme contribution	**6**	6
	1,589	1,451

16. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the Reporting Period (2009: Nil).

17. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of the Company on 26 August 2010.

OTHER INFORMATION

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

As at 30 June 2010, the following Directors had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

Long positions in shares and underlying shares of the Company

Name of Director	Number of issued shares and underlying shares held (long position[L])	Nature of Interest			Percentage of the issued share capital of the Company
		Beneficial *(Note 3)*	Corporate	Family	
Cheung Siu Lam *(Note 1)*	701,967,796	470,044,240	86,400,000	145,523,556	40.67%
Lo Wan *(Note 2)*	701,967,796	145,523,556	–	556,444,240	40.67%
Chan Yuk Ming	20,000,000	20,000,000	–	–	1.15%

Notes:

(1) By virtue of SFO, Mr. Cheung Siu Lam is deemed to be interested in 145,523,556 shares held by Madam Lo Wan and 86,400,000 shares by Arbalice Holdings Limited which is a company beneficially owned as to 60% by Mr. Cheung Siu Lam, 27.5% by Madam Lo Wan and 12.5% by Zhang Wei, a third party independent of, and not connected with Mr. Cheung Siu Lam, the Company and its connected persons as defined in the Listing rules.

(2) By virtue of SFO, Madam Lo Wan is deemed to be interested in 470,044,240 shares held by Mr. Cheung Siu Lam and 86,400,000 shares held by Mr. Cheung Siu Lam through his interest in Arbalice Holdings Limited.

(3) The beneficial interest of each of Cheung Siu Lam, Lo Wan and Chan Yuk Ming includes 10,000,000 underlying shares from holding share option exercisable during the period between 4 October 2007 and 3 October 2017 at an exercise price of HK$0.479 per share.

Long positions in shares and underlying shares of associated corporation

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

Save as disclosed above, none of the Directors nor the chief executives of the Company or any of their associates had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Listing Rules, to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

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

As at 30 June 2010, so far is known to the Directors, the following persons (not being a Director or a chief executive of the Company) had or were deemed to have interests or short positions in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO, or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	Capacity	Number of issued Shares held (long position(L)/ short position(S))	Percentage of the issued share capital of the Company
Arbalice Holdings Limited	Beneficial Owner	86,400,000(L) *(Note1)*	5.00%
ARC Capital Holdings Limited	Beneficial Owner	240,625,000(L) *(Note2)*	13.94%
ZHANG Hao Chen	Beneficial Owner	106,242,000	6.16%

Notes:

(1) The above interest in the name of Arbalice Holdings Limited was also disclosed as interest of Mr. Cheung Siu Lam in section of "Directors' Interests and Short Positions in the Securities of the Company and its Associated Corporations".

(2) ARC Capital Holdings Limited (the chairman and a director of which is Mr. Liu Hui who is a non-executive Director) is a closed-end fund listed on the AIM Market of the London Stock Exchange principally engaged in the making and holding investments in the retail, consumer products and service sections of Greater China and other countries in Asia.

Save as disclosed above and under the section headed "Directors' Interests and Short Positions in the Securities of the Company and its Associated Corporations", the Directors were not aware of any other person who had, or was deemed to have, interests or short positions in the shares or underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which was required, pursuant to section 336 of the SFO, to be entered in the register referred therein.

SHARE OPTION

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

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

Director	Date of offer	Exercise price	Outstanding at 1.1.2010	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2010	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

CHANGE IN INFORMATION OF DIRECTOR

Pursuant to Rule 13.51(B) of the Listing Rules, the change in information of director of the Company subsequent to the date of the 2009 Annual Report is set out below:

– Mr Cheung Siu Lam, Chairman of the board, is entitled to receive director's emolument of HK$3,612,400 including HK$2,348,000 subsidised accommodation providing to him for his services with effect from 1 May 2010.

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

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

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the Reporting Period, except for code provision A.1.1, A.2.1 and A.5.1:

Code Provision A.1.1

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.

Code Provision A.2.1

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.

Code Provision A.5.1

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,

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

AUDIT COMMITTEE

The Audit Committee, which comprises three independent non-executive directors, has reviewed the interim results for six months ended 30 June 2010. The Audit Committee considered that the interim financial report for the Reporting Period is in compliance with the relevant financial reporting standards, requirement on Listing Rules and Laws of Hong Kong, and the Company has made appropriate disclosures thereof. The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the Chief Financial Officer or external auditors before submission to the Board.

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

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

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

Hong Kong, 26 August 2010