



K.P.I. COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 605)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

FINANCIAL RESULTS

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 2007 (the “Reporting Period”) together with the comparative figures as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

		(Unaudited)	
		For the six months ended 30 June	
	Note	2007 HK\$'000	2006 HK\$'000 (restated)
Turnover	3	367,027	176,057
Cost of sales		(332,538)	(158,977)
Gross profit		34,489	17,080
Other revenue	3	45,284	23,268
Selling and distribution expenses		(19,418)	(9,869)
General and administrative expenses		(54,047)	(31,849)
Changes in fair value on investment property		–	500
Profit/(loss) from operating activities	4	6,308	(870)
Finance costs		(2,663)	(1,233)
Profit/(loss) before income tax		3,645	(2,103)
Non-operating expenses		(274)	(507)
Income tax expenses	5	(109)	904
Profit/(loss) for the period		3,262	(1,706)
Attributable to:			
Equity holders of the Company		3,263	(1,706)
Minority interest		(1)	–
		3,262	(1,706)
Earnings/(loss) per share			
attributable to equity holders of the Company	6		
– Basic		HK0.30 cents	(HK0.17 cents)
– Diluted		HK0.30 cents	(HK0.17 cents)
Dividends	12	NIL	NIL

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2007 (unaudited) HK\$'000	31 December 2006 (audited) HK\$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		32,816	38,314
Land lease premium		2,059	2,071
Investment property		13,200	13,200
Intangible assets		57,037	58,016
Interests in associates		2,112	2,112
Goodwill		13,493	13,493
Amount due from a joint venture partner		2,928	2,928
Available-for-sale investments		3,534	3,534
		127,179	133,668
Current assets			
Financial assets at fair value through profit or loss		13,635	13,907
Inventories		57,665	57,992
Other receivables, deposits and prepayments		131,399	130,082
Loan and interest receivables		64,350	61,659
Pledged time deposits		–	23,400
Cash and cash equivalents		231,086	134,477
		498,135	421,517
Current liabilities			
Tax payable		15	85
Trade payables	7	138,841	142,136
Other payables and accruals		75,689	55,061
Short term bank loans – unsecured	8	71,897	76,000
		286,442	273,282
Net current assets		211,693	148,235
Total assets less current liabilities		338,872	281,903
Non-current liabilities			
Convertible note		–	(91,521)
NET ASSETS		338,872	190,382

		30 June 2007 (unaudited) HK\$'000	31 December 2006 (audited) HK\$'000
	<i>Note</i>		
Capital and reserves			
Share capital	9	149,635	101,588
Reserves		181,608	79,071
Total equity attributable to equity holders of the Company		331,243	180,659
Minority interest		7,629	9,723
TOTAL EQUITY		338,872	190,382

Notes:

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The Group is principally engaged in the retail business in the PRC including supermarket and chain stores, and investment in financial securities and real estate properties.

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 2006, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which also included HKASs and Interpretations), that affect the Group and are adopted for the first time for the current period’s financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosure
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The revised HKAS 1 affects the disclosures of qualitative information about the Group’s objectives, policies and processes for managing capital, quantitative data about what the Company regards as capital, and compliance with any capital requirements and the consequences of any non-compliance.

The HKFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group’s financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates major disclosure requirements of HKAS 32.

The HK(IFRIC)-Int 7 addresses requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and requires an entity to restate its financial statements in accordance with HKAS 29.

The HK(IFRIC)-Int 8 addresses the application of HKFRS 2 to particular transactions in which the entity cannot identify specifically some or all of the goods or services received.

The HK(IFRIC)-Int 9 addresses the application of HKAS 39 that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract, and prohibits subsequent reassessment throughout the life of the contract except for exceptional circumstances.

The HK(IFRIC)-Int 10 addresses the interaction between the requirements of HKAS 34 and the recognition of impairment losses on goodwill in HKAS 36 and certain financial assets in HKAS 39 and that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

There was no material impact on the basis of preparation of the unaudited condensed consolidated balance sheet and unaudited condensed consolidated income statement arising from the above-mentioned accounting standards.

Impact of issued but not yet effective HKFRSs and HKASs

The Group has not applied the following new and revised HKFRSs and HKASs, which have been issued but not yet effective, in these interim financial statements:

- HKFRS 8 Operating Segments
- HKAS 23 (Revised) Borrowing Costs
- HK(IFRIC)-Int 11 HKFRS 2 Group and Treasury Share Transactions
- HK(IFRIC)-Int 12 Service Concession Arrangements

HKFRS 8 (effective for accounting period beginning on or after 1 January 2009) supersedes HKAS 14, Segment Reporting, under which segments were identified and reported on the basis of a risk and return analysis. Items were reported on the basis of the accounting policies used for external reporting. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker or an authorised qualified staff of the entity. Items are reported based on internal reporting.

HKAS 23 (Revised), HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 January 2009, 1 March 2007 and 1 January 2008 respectively.

2. SEGMENT INFORMATION

Business segments

An analysis of the Group's performance by business segments, namely 'trading of securities and property investment' and 'supermarket chain operation' is as follows:

	Trading of securities and property investment (Unaudited)		Supermarket chain operation (Unaudited)		Consolidated (Unaudited)	
	For the six months ended		For the six months ended		For the six months ended	
	30 June	30 June	30 June	30 June	30 June	30 June
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		(restated)		(restated)
Segment revenue:						
Turnover	38,900	24,402	328,127	151,655	367,027	176,057
Other revenue	4,638	2,962	40,646	20,306	45,284	23,268
Total	<u>43,538</u>	<u>27,364</u>	<u>368,773</u>	<u>171,961</u>	<u>412,311</u>	<u>199,325</u>
Segment results	<u>835</u>	<u>(2,471)</u>	<u>5,473</u>	<u>1,101</u>	<u>6,308</u>	<u>(1,370)</u>
Changes in fair value of investment property					–	500
Profit/(loss) from operating activities					6,308	(870)
Finance costs					(2,663)	(1,233)
Profit/(loss) before income tax					3,645	(2,103)
Unallocated expenses					(274)	(507)
Income tax expenses					(109)	904
Profit/(loss) for the period					<u>3,262</u>	<u>(1,706)</u>

The segment assets and liabilities are as follows:

	(Unaudited) As at 30 June 2007				(Audited) As at 31 December 2006			
	Trading of securities and property investment	Supermarket chain operation	Unallocated corporate & consolidated	Total	Trading of securities and property investments	Supermarket chain operation	Unallocated corporate & consolidated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets	<u>24,746</u>	<u>309,188</u>	<u>291,380</u>	<u>625,314</u>	<u>16,794</u>	<u>283,742</u>	<u>254,649</u>	<u>555,185</u>
Liabilities	<u>–</u>	<u>281,200</u>	<u>5,242</u>	<u>286,442</u>	<u>–</u>	<u>266,105</u>	<u>7,177</u>	<u>273,282</u>

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, inventories, trade receivables and operating cash.

Segment liabilities comprise operating liabilities.

Geographical segments

In determining the Group's geographical segment, revenue is attributed to the segments based on the location of the customers.

	(Unaudited) For the six months ended 30 June 2007		(Unaudited) For the six months ended 30 June 2006		(Unaudited) For the six months ended 30 June Consolidated	
	Hong Kong HK\$'000	PRC HK\$'000	Hong Kong HK\$'000 (restated)	PRC HK\$'000 (restated)	2007 HK\$'000	2006 HK\$'000 (restated)
Segment revenue:						
Turnover	38,900	328,127	24,402	151,655	367,027	176,057
Other revenue	4,638	40,646	2,962	20,306	45,284	23,268
Total	<u>43,538</u>	<u>368,773</u>	<u>27,364</u>	<u>171,961</u>	<u>412,311</u>	<u>199,325</u>

3. TURNOVER

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, supermarket chain operation, trading of securities and the rental income received and receivable during the period.

The Group's turnover and other revenue for the period arose from the following activities:

	(Unaudited) For the six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000 (restated)
Turnover		
Supermarket chain operation	328,127	151,655
Sales of trading securities	38,833	24,261
Gross rental income from investment property	67	141
	<u>367,027</u>	<u>176,057</u>
Other revenue		
Dividend income	278	25
Bank interest income	974	1,546
Loan and other interest income	3,116	2,005
Profit on disposal of a subsidiary	–	7
Gain on realisation of share options	14	251
Change in fair value of financial assets	252	(870)
Exchange gain, net	4	4
Gross rental income from leasing of shop premises	7,201	4,328
Promotion and store display income from suppliers	33,445	15,972
	<u>45,284</u>	<u>23,268</u>

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	(Unaudited)	
	For the six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
		(restated)
Depreciation	7,562	4,889
Amortisation of land lease premium	22	22
Operation lease rentals	16,351	8,448
Staff cost	12,028	9,502
Change in fair value of investments at fair value through profit or loss, net	(252)	870
Change in fair value of investment properties	–	(500)
Loss/(gain) on disposal of fixed assets	6	(37)
Interest income	(4,090)	(3,550)
Dividend income from investments at fair value through profit or loss/available-for-sales investments	(278)	(25)
Exchange gains, net	(4)	(4)
	<u> </u>	<u> </u>

5. INCOME TAX EXPENSES

	(Unaudited)	
	For the six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
		(restated)
Current Taxation		
Hong Kong profits tax	–	–
PRC corporate income tax	109	(904)
	<u> </u>	<u> </u>
Tax charge for the period	<u>109</u>	<u>(904)</u>

No Hong Kong profits tax is provided as there is no assessable profits for the period (2006: Nil).

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

No provision for deferred taxation has been made as the Company and its subsidiaries had no significant unprovided timing differences at each of the balance sheet dates.

6. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

	(Unaudited)	
	For the six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Profit/(loss) attributable to equity holders of the Company for the purposes of basic and diluted earnings/(loss) per share	3,263	(1,706)
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	1,086,830,789	1,015,877,336
Effect of dilutive potential ordinary shares: Share options	1,111,436	6,233,830
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	1,087,942,225	1,022,111,166

7. TRADE PAYABLES

The ageing analysis of the Group's trade and bills payables is analysed as follows:

	30 June 2007 (unaudited) HK\$'000	31 December 2006 (audited) HK\$'000
Outstanding balances with ages:		
Due within 1 month or on demand	89,532	62,138
Due after 1 month but within 3 months	49,309	79,998
	138,841	142,136

Note: The carrying amounts of trade and bills payables approximate to their fair values.

8. SHORT TERM BANK LOANS – UNSECURED

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

	30 June 2007 (unaudited) HK\$'000	31 December 2006 (audited) HK\$'000
Within 1 year	71,897	76,000

The Group's bank borrowings are denominated in Renminbi.

9. SHARE CAPITAL

	30 June 2007 (unaudited)		31 December 2006 (audited)	
	<i>No. of shares</i>	<i>HK\$'000</i>	<i>No. of shares</i>	<i>HK\$'000</i>
<i>Authorised</i>				
Ordinary share of HK\$0.10 each	<u>2,000,000,000</u>	<u>200,000</u>	<u>2,000,000,000</u>	<u>200,000</u>
<i>Issued and fully paid</i>				
At 1 January 2007 and 31 December 2006	1,015,877,336	101,588		
Conversion of convertible note	290,625,000	29,062		
Placing of new share	130,000,000	13,000		
Exercise of share option	<u>59,850,000</u>	<u>5,985</u>		
At 30 June 2007	<u>1,496,352,336</u>	<u>149,635</u>		

10. OPERATING LEASE COMMITMENT

(a) As lessor

The Group leases its investment property, shop premises of supermarket chain operation and golf club membership under operating lease arrangements, with leases negotiated for terms of one year for investment property, one to ten years for shop premises of supermarket 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 then prevailing market conditions.

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

	30 June 2007 (unaudited) HK\$'000	31 December 2006 (audited) HK\$'000
Within one year	8,247	8,659
In the second to fifth years, inclusive	17,907	18,397
After the fifth years	<u>7,976</u>	<u>9,721</u>
	<u>34,130</u>	<u>36,777</u>

(b) As lessee

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

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

	30 June 2007 (unaudited) HK\$'000	31 December 2006 (audited) HK\$'000
Within one year	31,994	31,845
In the second to fifth years, inclusive	130,610	129,528
After the fifth years	<u>213,373</u>	<u>222,018</u>
	<u>375,977</u>	<u>383,391</u>

11. 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 profit and loss account

		(Unaudited)	
		For the six months ended 30 June	
		2007	2006
	Notes	HK\$'000	HK\$'000
Rental expenses to a company controlled by directors	(i)	498	498
Rental income from a jointly controlled entity	(ii)	—	78
		<u> </u>	<u> </u>

Notes:

- (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.
- (ii) Rental income was received from a jointly controlled entity. The monthly rental was mutually agreed by both parties.

(b) Compensation of key management personnel of the Group

		(Unaudited)	
		For the six months ended 30 June	
		2007	2006
		HK\$'000	HK\$'000
Salaries, allowances and other benefits		1,414	1,414
Pension scheme contribution		6	6
Share-based payments expenses		—	—
		<u> </u>	<u> </u>
		<u>1,420</u>	<u>1,420</u>

12. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the Reporting Period (2006: Nil).

13. APPROVAL OF THE INTERIM FINANCIAL REPORT

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of the Company on 6 September 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Reporting Period, China's economy continued to grow at a rapid but stable pace. China recorded a GDP growth of 11.5% on a year-on-year basis. During the first half of 2007, PRC consumers' average disposable income increased in line with the continuing rapid growth of the PRC economy. Gross retail sales grew by 15.4% and reached a new high to approximately RMB4,204.4 billion according to government statistics^(Note 1). Retail sales have been buoyed by fast-rising incomes as wages in urban areas have almost doubled in the past five years.

Note 1:

Monthly retail sales of consumer goods in the PRC for the six months ended 30 June 2007:

**Total retail sales of
consumer goods**
RMB billion

January 2007	748.8
February 2007	701.4
March 2007	668.6
April 2007	667.2
May 2007	715.7
June 2007	702.6

Source: National Bureau of Statistics of China

During the Reporting Period, the Group maintained a steady increase in both revenue and profit and reported satisfactory results. Hualian GMS Shopping Center Co., Ltd ("GMS"), the Group's hypermarket operator in Shanghai, had been implementing a remodeling exercise since last year and some of the store layouts were refined. All store managers and management staff fully participated in contributing new ideas to merchandise categorization, product display, shopping environment and operation process, thus enhancing overall service standards and customer satisfaction.

As at 30 June 2007, GMS had about 19 outlets, including a new outlet opened in Shanghai's sub-urban area. One outlet located in Shenyang was closed down. Located in middle-income residential communities, GMS outlets provided a comprehensive range of merchandise to customers at competitive prices. In addition, some portions of our premises were leased out to quality retailers to create the concept of a multi-purpose shopping center. The number of outlets of GMS will be increased steadily, mainly in Shanghai, to further strengthen our presence and bargaining power in the city.

Outlook and Prospects

Looking ahead, in view of the opportunities from the rapid development of China's economy and the strong demand for fast moving consumer products, the Directors are optimistic about the prospects of the Company's business.

The Company's strategic development in the future is to become one of the major conglomerates in China's retail industry. The Company will further strengthen its core competitiveness by improving operating performance and enlarging revenue scale through mergers and acquisitions. The Company will also continue to cultivate new opportunities for asset expansion as well as enhancing shareholders' value and profitability.

Financial Review

During the Reporting Period, the Group's turnover reached approximately HK\$367,027,000, net profit after tax attributable to equity holders of the Company was approximately HK\$3,263,000. Gross margin and net margin of the Group were about 9.4% and 0.9% respectively. Turnover and income from suppliers of GMS accounted for approximately 89.4% and 9.1% of the Group's turnover respectively. Gross margin and consolidated gross margin of GMS were about 9.9% and 21.3% respectively. During the Reporting Period, the general and administrative expenses, selling and distribution expenses and finance costs were approximately HK\$54,047,000, HK\$19,418,000 and HK\$2,663,000 respectively, accounting for approximately 14.7%, 5.3% and 0.7% of total revenue.

As at 30 June 2007, the Group had non-current assets amounting to approximately HK\$127,179,000 (31 December 2006: HK\$133,668,000). Non-current assets mainly include property, plant and equipment of approximately HK\$32,816,000 (31 December 2006: HK\$38,314,000), goodwill and intangible assets of approximately HK\$70,530,000 (31 December 2006: HK\$71,509,000), investment property of approximately HK\$13,200,000 (31 December 2006: HK\$13,200,000), interests in associated companies of approximately HK\$2,112,000 (31 December 2006: HK\$2,112,000) and available of sales investments of approximately HK\$3,534,000 (31 December 2006: HK\$3,534,000). As at 30 June 2007, the Group had current assets amounting to approximately HK\$498,135,000 (31 December 2006: HK\$421,517,000). Current assets mainly comprised cash and bank balances of approximately HK\$231,086,000 (31 December 2006: HK\$134,477,000), inventory of approximately HK\$57,665,000 (31 December 2006: HK\$57,992,000), prepayment, deposits and other receivables of approximately HK\$131,399,000 (31 December 2006: HK\$130,082,000), loan and interest receivables of approximately HK\$64,350,000 (31 December 2006: HK\$61,659,000) and financial assets at fair value through profit or loss of approximately HK\$13,635,000 (31 December 2006: HK\$13,907,000). As at 30 June 2007, the Group had current liabilities amounting to approximately HK\$286,442,000 (31 December 2006: HK\$273,282,000). Current liabilities mainly comprised unsecured short-term bank loans of approximately HK\$71,897,000 (31 December 2006: HK\$76,000,000). Trade payables of approximately HK\$138,841,000 (31 December 2006: HK\$142,136,000). Other payables, receipts in advance and accruals of approximately HK\$75,689,000 (31 December 2006: HK\$55,061,000).

Fund Raising Activity

On 6 June 2007, the Company has carried out a top-up placing of 130,000,000 shares at a price of HK\$0.38 per share. The net proceeds generated from such top-up placing amounted to approximately HK\$49 million, has been applied as general working capital of the Group to facilitate its plan to expand its retail outlets in the PRC. During the Reporting Period, the Company allotted and issued a total of 59,850,000 ordinary shares of HK\$0.1 each as a result of the exercise of share option, the net proceeds generated amounted to approximately HK\$8.5 million, has been applied as general working capital of the Group.

Subsequent Events

Disposal of Investment Property

On 16 July 2007, the Group disposed its investment property situating at Flat B1, 16th Floor, Block B and carpark No. 119 at Carpark 4, Beverly Hill, No. 6 Broadwood Road, Happy Valley, Hong Kong to an independent third party at a consideration of HK\$14,280,000. Gain on disposal of approximately HK\$1,000,000 was recorded in 2nd half of 2007.

Fund Raising Activity

On 19 July 2007, the Company has carried at a top-up placing of 86,000,000 shares at a price of HK\$0.405 per share. The net proceeds generated from such top-up placing amounted to approximately HK\$34 million, has been applied as general working capital of the Group to facilitate its plan to expand its retail business in the PRC.

Risk Management

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

(i) Foreign exchange risk

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

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets, other than cash at banks. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) Credit risk

The Group has no significant concentrations of credit risk. Most of the sales transactions were settled in cash basis or by credit card payment. The carrying amount of loan and other receivables included in the consolidated balance sheet 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.

(iv) Liquidity risk

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

During the Reporting Period, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding in the six months ended 30 June 2007.

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

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

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

As at 30 June 2007, the debt to equity ratio was 23.4% (31 December 2006: 92.7%).

Fair Value Estimation

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

Employees and Remuneration Policies

As at 30 June 2007, the Group, including GMS, had approximately 4,500 employees in the mainland China and Hong Kong. The Group continued to recruit high calibre people and provided continuing education and training for employees to help upgrade their skills and knowledge as well as developing team spirit on an on-going basis. For the Reporting Period, total staff costs were about HK\$12.0 million. Competitive remuneration packages and performance-based bonuses are structured to commensurate with individual responsibilities, qualification, experience and performance.

Contingent Liabilities

As at 30 June 2007, the Group has no significant contingent liabilities.

PURCHASE, SALES 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 provisions A.2.1 and B.1.1:

1. Code provision A.2.1

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

2. Code provision B.1.1

The Company did not establish a remuneration committee with specific terms of reference during the Reporting Period, as the Company believes that the Board has extensive experience in the industry and is fully qualified to determine the remuneration packages of employees of the Company including directors and senior management.

During the Reporting Period, the Board as a whole is responsible for making recommendations on and approving the remuneration policy and structure and remuneration packages of the directors and the senior management. The Board 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 Board normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Board for consideration. The Board shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

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 2007. 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 qualified accountant 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.

INTERIM REPORT

The 2007 Interim Report will be despatched to shareholders and published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.kpi.com.hk) in due course.

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

Hong Kong, 6 September 2007

As at the date of this announcement, the Board comprises Mr. Cheung Siu Lam, Mr. Chan Yuk Ming and Madam Lo Wan as executive directors, Mr. Wang Jian Sheng, Mr. Chan Chun Keung and Mr. Tsang Kwok Wai as independent non-executive directors.