



K.P.I. COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 605)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

FINANCIAL HIGHLIGHTS

	Unaudited six months ended 30 June 2008 (HK\$'000)	Unaudited six months ended 30 June 2007 (HK\$'000)	Percentage changes
Turnover	901,035	367,027	145.5%
Gross profit	85,729	34,489	148.6%
Profit for the period attributable to equity holders of the Company	4,259	3,263	30.5%
Basic earnings per share	0.25 cents	0.30 cents	(16.7%)

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 2008 (the “Reporting Period”) together with the comparative figures as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

		(Unaudited)	
		For the six months ended 30 June	
		2008	2007
	Note	HK\$'000	HK\$'000 (restated)
Turnover	3	901,035	367,027
Cost of sales		(815,306)	(332,538)
Gross profit		85,729	34,489
Other revenue	3	108,678	45,032
Selling and distribution expenses		(47,815)	(19,418)
General and administrative expenses		(145,103)	(54,069)
Fair value gain on investment property		11,196	–
Profit from operations	4	12,685	6,034
Finance costs		(2,947)	(2,663)
Profit before income tax		9,738	3,371
Income tax	5	(1,008)	(109)
Profit for the period		8,730	3,262
Attributable to:			
Equity holders of the Company		4,259	3,263
Minority interests		4,471	(1)
		8,730	3,262
Earnings per share	6		
– Basic		HK0.25 cents	HK0.30 cents
– Diluted		HK0.25 cents	HK0.30 cents
Dividends	15	NIL	NIL

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		53,956	27,866
Lease premium for land		904	905
Investment property	7	68,294	–
Intangible assets		89,281	55,664
Interests in associates		–	2,112
Goodwill	8	110,764	13,493
Amount due from a joint venture partner		–	2,928
Available-for-sale investments		3,534	3,534
		326,733	106,502
Current assets			
Lease premium for land		12	23
Financial assets at fair value through profit or loss		25,762	29,773
Inventories		125,274	68,774
Other receivables, deposits and prepayments		220,137	186,448
Loan and interest receivables		–	64,350
Tax receivables		–	567
Pledged deposits		–	6,372
Cash and cash equivalents		313,947	252,288
		685,132	608,595
Current liabilities			
Tax payable		2,492	1,236
Trade payables	9	130,870	167,860
Other payables and accruals		235,228	94,439
Short term bank loans – unsecured	10	167,936	63,830
		536,526	327,365
Net current assets		148,606	281,230
Total assets less current liabilities		475,339	387,732
NET ASSETS		475,339	387,732
Capital and reserves			
Share capital	11	172,590	159,590
Reserves		271,665	218,432
Total equity attributable to equity holders of the Company		444,255	378,022
Minority interests		31,084	9,710
TOTAL EQUITY		475,339	387,732

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 2007, 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.

The following interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group.

HK(IFRIC) – Int 11	‘HKFRS 2 – Group and treasury share transactions’
HK(IFRIC) – Int 12	‘Service concession arrangement’
HK(IFRIC) – Int 14	‘HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

HKFRS 8	‘Operating segments’
HKAS 23 (revised)	‘Borrowing costs’
HKFRS 2 (amendment)	‘Share-based payment’
HKFRS 3 (revised)	‘Business combinations’ and consequential amendments to HKAS 27, ‘Consolidated and separate financial statements’, HKAS 28, ‘Investments in associates’ and HKAS 31, ‘Interests in joint ventures’
HKAS 1 (revised)	‘Presentation of financial statements’
HKAS 32 (amendment)	‘Financial instruments: presentation’
HK(IFRIC) – Int 13	‘Customer loyalty programmes’

The effect of the adoption of HKFRS 3 (revised) is being assessed by the management while the adoption of the other new standards, amendments to standards and interpretations listed above in future period is not expected to result in material impact.

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 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000 (restated)	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000 (restated)
Segment revenue:						
Turnover	25,845	38,900	875,190	328,127	901,035	367,027
Other revenue	1,815	4,386	106,863	40,646	108,678	45,032
Total	<u>27,660</u>	<u>43,286</u>	<u>982,053</u>	<u>368,773</u>	<u>1,009,713</u>	<u>412,059</u>
Segment results	<u>(13,283)</u>	<u>561</u>	<u>14,772</u>	<u>5,473</u>	<u>1,489</u>	<u>6,034</u>
Changes in fair value of investment property					11,196	–
Profit from operations					12,685	6,034
Finance costs					(2,947)	(2,663)
Profit before income tax					9,738	3,371
Income tax expenses					(1,008)	(109)
Profit for the period					<u>8,730</u>	<u>3,262</u>

The segment assets and liabilities are as follows:

	(Unaudited) As at 30 June 2008			(Audited) As at 31 December 2007		
	Trading of securities and property investment HK\$'000	Supermarket chain operation HK\$'000	Total HK\$'000	Trading of securities and property investments HK\$'000	Supermarket chain operation HK\$'000	Total HK\$'000
Assets	<u>203,433</u>	<u>808,432</u>	<u>1,011,865</u>	<u>354,647</u>	<u>358,338</u>	<u>712,985</u>
Liabilities	<u>(30,298)</u>	<u>(506,228)</u>	<u>(536,526)</u>	<u>(3,337)</u>	<u>(324,028)</u>	<u>(327,365)</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 2008		(Unaudited) For the six months ended 30 June 2007		(Unaudited) For the six months ended 30 June Consolidated 2008 2007	
	Hong Kong HK\$'000	PRC HK\$'000	Hong Kong HK\$'000 (restated)	PRC HK\$'000	HK\$'000	HK\$'000 (restated)
Segment revenue:						
Turnover	25,845	875,190	38,900	328,127	901,035	367,027
Other revenue	(252)	108,930	4,386	40,646	108,678	45,032
Total	<u>25,593</u>	<u>984,120</u>	<u>43,286</u>	<u>368,773</u>	<u>1,009,713</u>	<u>412,059</u>

3. TURNOVER

Turnover represents the retailing operations in supermarket chain store, trading of securities and 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 2008 2007 HK\$'000 HK\$'000 (restated)	
Turnover		
Supermarket chain operation	875,190	328,127
Sales of trading securities	22,587	38,833
Gross rental income from investment property	3,258	67
	<u>901,035</u>	<u>367,027</u>
Other revenue		
Dividend income	204	278
Bank interest income	568	974
Other interest income	1,975	3,116
(Loss)/gain on realisation of share options	(991)	14
Income from government subsidies	1,131	—
Exchange gain, net	4	4
Gross rental income from leasing of shop premises	21,776	7,201
Promotion and store display income from suppliers	83,956	33,445
Other	55	—
	<u>108,678</u>	<u>45,032</u>

4. PROFIT FROM OPERATIONS

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

	(Unaudited)	
	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Auditor's remuneration	970	—
Amortisation of land lease premium	12	22
Amortisation of intangible assets	1,513	—
Cost of inventories sold	788,323	—
Cost of trading securities	26,916	—
Depreciation	16,980	7,562
Dividend income from investments at fair value through profit or loss/available-for-sales investments	(204)	(278)
Loss/(gain) on realisation of share options	991	(14)
Operating lease payments	41,498	16,351
Staff cost	52,778	12,028
Staff-based payment expenses	2,684	—
Change in fair value of investments at fair value through profit or loss, net	3,348	(252)
Fair value gain of investment properties	(11,196)	—
Loss on disposal of fixed assets	—	6
Interest income	(2,543)	(4,090)
Exchange gain, net	(4)	(4)
	<u>(4)</u>	<u>(4)</u>

5. INCOME TAX

	(Unaudited)	
	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
		(restated)
Current Taxation		
Hong Kong profits tax	—	—
PRC enterprise income tax	1,008	109
Tax charge for the period	<u>1,008</u>	<u>109</u>

No Hong Kong profits tax is provided as there is no assessable profits for the period (2007: Nil).

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.

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 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	
	2008	2007
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company for the purposes of basic and diluted earnings per share	4,259	3,263
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,704,473,765	1,086,830,789
Effect of dilutive potential ordinary shares: Share options	5,963,236	1,111,436
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,710,437,001	1,087,942,225

7. INVESTMENT PROPERTY

	<i>HK\$'000</i>
At 1 January 2008 (audited)	—
Acquisition	57,098
Increase in fair value	11,196
At 30 June 2008 (unaudited)	68,294

8. GOODWILL

	<i>HK\$'000</i>
Cost	
At 1 January 2008 (audited)	15,339
Additions on acquisition of a subsidiary	97,271
At 30 June 2008 (unaudited)	112,610
Accumulated impairment	
At 1 January and 30 June 2008	1,846
Net carrying value	
At 30 June 2008 (unaudited)	110,764

9. TRADE PAYABLES

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

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Outstanding balances with ages:		
Due within 1 month or on demand	73,783	80,062
Due after 1 month but within 3 months	57,087	87,798
	<u>130,870</u>	<u>167,860</u>

Note: The carrying amounts of trade payables approximate to their fair values due to their short maturity term.

10. SHORT TERM BANK LOANS – UNSECURED

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

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within 1 year	<u>167,936</u>	<u>63,830</u>

The Group's bank borrowings are unsecured and denominated in Renminbi. The bank loans bear annual interest rates ranging from 5.475% to 7.02%. The bank loans are repayable within three to twelve months. The fair value of the Group's bank loans as at 30 June 2008 approximated their corresponding carrying amounts.

11. SHARE CAPITAL

	30 June 2008 (Unaudited)		31 December 2007 (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>4,000,000,000</u>	<u>400,000</u>	<u>2,000,000,000</u>	<u>200,000</u>
<i>Issued and fully paid</i>				
At 1 January 2008 and 31 December 2007	1,595,902,336	159,590		
Issue of new shares	<u>130,000,000</u>	<u>13,000</u>		
At 30 June 2008	<u>1,725,902,336</u>	<u>172,590</u>		

12. 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 to fifteen years 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 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within one year	27,356	7,691
In the second to fifth years, inclusive	65,959	16,861
After the fifth years	28,194	7,026
	<u>121,509</u>	<u>31,578</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 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within one year	78,904	35,244
In the second to fifth years, inclusive	318,037	132,784
After the fifth years	473,137	206,575
	<u>870,078</u>	<u>374,603</u>

13. ACQUISITION OF A SUBSIDIARY

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 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 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 28 January 2008 and the acquisition cost of HK\$138,500,000 was satisfied by (i) as to HK\$64,349,829 by releasing the Loan; (ii) as to HK\$15,650,171 in cash; and (iii) as to HK\$30,800,000 and HK\$27,700,000 by issuance of 68,444,444 and 61,555,556 shares of the Company at an issue price of HK\$0.45 each respectively.

After the completion of the Transaction, the Group indirectly held 60% equity interest in Hualian GMS.

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

	Carrying amount of acquiree’s fair value and net assets before combination <i>HK\$’000</i>
Property, plant and equipment	58,502
Inventories	201,682
Other receivables, deposits and prepayments	233,246
Cash and cash equivalents	275,590
Trade payables	(232,958)
Other payables and accruals	(285,069)
Tax payables	(2,864)
Short term bank loans	(159,574)
Amounts due to shareholders	(46,298)
Net assets	<u>42,257</u>
20% interest of the acquiree’s fair value	8,451
Intangible asset – trademark	32,778
Goodwill on acquisition	97,271
Direct expenses on acquisition	<u>1,324</u>
Total consideration	<u>139,824</u>

	Carrying amount of acquiree's fair value and net assets before combination HK\$'000
Satisfied by	
Cash consideration	16,974
Releasing the loan receivable from Mr. Zhang	64,350
Issue of shares	58,500
	<u>139,824</u>
Net cash inflow arising on acquisition	
Cash consideration paid	(16,974)
Cash and cash equivalents acquired	275,590
	<u>258,616</u>

Goodwill arising from the acquisition was attributable to the anticipated profit of Hualian GMS.

For the period of five months between the completion date of the acquisition and 30 June 2008, Hualian GMS contributed approximately RMB802,584,000 to the total revenue and approximately RMB10,283,000 to the profit after tax of the Group.

14. RELATED PARTY TRANSACTIONS

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

(a) Related party transactions included in the income statement

		(Unaudited)	
		For the six months ended 30 June	
		2008	2007
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental expenses to a company controlled by directors	(i)	<u>498</u>	<u>498</u>

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.

(b) Compensation of key management personnel of the Group

	(Unaudited)	
	For the six months ended 30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and other benefits	1,445	1,414
Pension scheme contribution	6	6
Share-based payments expenses	—	—
	<u>1,451</u>	<u>1,420</u>

15. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the Reporting Period (2007: Nil).

16. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of the Company on 28 August 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Reporting Period, China's economy continued to grow at a rapid but stable pace, and stimulate strong consumer spending. China recorded a GDP growth of 10.4% on a year-on-year basis. During the first half of 2008, PRC consumers' average disposal income increased in line with the continuing rapid growth of the PRC economy. Gross retail sales grew by 21.4% and reached a new high of approximately RMB5,104.1 billion according to government statistics.

Note 1:

Monthly retail sales of consumer goods in China for the six months ended 30 June 2008:

	Total retail sales of consumer goods <i>RMB billion</i>
January 2008	907.7
February 2008	835.4
March 2008	812.3
April 2008	814.2
May 2008	870.3
June 2008	864.2

The acquisition of an additional 20% equity interest in Hualian GMS was completed on 28 January 2008. Upon completion of the acquisition, Hualian GMS has become a non wholly-owned subsidiary of the Company and the results of Hualian GMS will be fully consolidated into the Group's accounts. Consequently, the Group's turnover increases substantially to approximately HK\$901,035,000 for the six months ended 30 June 2008, up by approximately 145.5% over the corresponding period in 2007. During the Reporting Period, the Group recorded a gross profit of HK\$85,729,000, representing an increase of 148.6% from HK\$34,489,000 in the previous year.

The Group is principally engaged in retail business in PRC. Hualian GMS, a hypermarket chain operated by the Group, has 18 leased stores mainly located in Shanghai. Hualian GMS has grown rapidly into the most significant force in Shanghai's hypermarket business and become a reliable brand name to consumers in China. The sizes of the stores range from approximately 5,000 to 15,000 square meters. All of them are located in community centers with high pedestrian flow and residential population.

Starting from 2006, Hualian GMS has been implementing a renovation plan. The design of the store has gone through a complete overhaul and revamped stores have taken a new look with a contemporary ambience for shoppers. As a result of these efforts, renovated store sales increased by more than 20% to 40% over the corresponding period of the previous year.

During the Reporting Period, turnover and gross profit of Hualian GMS increased by 10.0% and 9.8% respectively as compared to the corresponding figures in the same period last year. The results improvement was attributable to the increase in number of transactions and average transaction amount per customer through continual enhancement of merchandise category management, optimization of product mix and pricing policies, and improvement in service quality. Despite facing challenges of increasing operating costs such as labour wages, utility & fuel costs, stringent cost control paid off as total operating expenses only slightly increased by 6.5% when compared to the first half of 2007. During the Reporting Period, profit before tax of Hualian GMS was approximately RMB13,400,000, representing a growth of approximately 73% over the figure of the corresponding period of the previous year.

During the Reporting Period, in respect of the performance of investments in marketable securities, the Group recorded a loss of approximately HK\$5,000,000 and an unrealised loss on change in fair value of approximately HK\$3,300,000. The value of financial assets at fair value represented less than 3% of the total assets of the Group. The directors are cautiously keeping track of the development in the equity market and will gradually reduce the size of the investment portfolio.

During the first half of 2008, the Group adhered to the development strategies. The Group completed the acquisition of the whole block of a commercial building in Beijing. The property will not only provide the Group with a stable source of rental income, but also facilitate the Group's establishment of retail network in Beijing. The Group is reviewing the possibility of opening a supermarket chain store inside the commercial building. Currently there is a Hi-24 convenience store operating inside the building. To expand its retail business in Beijing; a non wholly-owned subsidiary of the Company had entered into an operating sub-contracting agreement and trademarks transfer agreement with a convenience store operator in Beijing; details of the transaction were discussed in the Subsequent Event section. The Group will continually leverage its competitive edge in retail operation to extend its chain network in major cities of the PRC. The Group will continue to offer better customer services, strengthen store management and open more new stores to meet the ever increasing demands from customers.

Financial Review

Turnover and Net Profit

During the Reporting Period, the Group's turnover reached approximately HK\$901,035,000, and net profit after tax attributable to equity holders of the Company was approximately HK\$4,259,000. Gross margin and net margin of the Group were about 9.5% and 0.5% respectively. Selling and administrative expenses were, in aggregate, approximately HK\$192,918,000, approximately 21.4% of total revenue. Staff related costs and rental expenses were about HK\$55,462,000 and HK\$41,498,000 respectively, approximately 6.2% and 4.6% of total revenue.

Capital Structure, Liquidity and Financial Resources

As at 30 June 2008, the Group had non-current assets amounting to approximately HK\$326,733,000 (31 December 2007: HK\$106,502,000). Non-current assets mainly include property, plant and equipment of approximately HK\$53,956,000 (31 December 2007: HK\$27,866,000), goodwill and intangible assets of approximately HK\$200,045,000 (31 December 2007: HK\$69,157,000), investment property of approximately HK\$68,294,000 (31 December 2007: Nil), available-for-sales investments of approximately HK\$3,534,000 (31 December 2007: HK\$3,534,000). As at 30 June 2008, the Group had current assets amounting to approximately HK\$685,132,000 (31 December 2007: HK\$608,595,000). Current assets mainly comprised cash and bank balances of approximately HK\$313,947,000 (31 December 2007: HK\$252,288,000), inventories of approximately HK\$125,274,000 (31 December 2007: HK\$68,774,000), prepayment, deposits and other receivables of approximately HK\$220,137,000 (31 December 2007: HK\$186,448,000), financial assets at fair value through profit or loss of approximately HK\$25,762,000 (31 December 2007: HK\$29,773,000). As at 30 June 2008, the Group had current liabilities amounting to approximately HK\$536,526,000 (31 December 2007: HK\$327,365,000). Current liabilities mainly comprised unsecured short term bank loans of approximately HK\$167,936,000 (31 December 2007: HK\$63,830,000), trade payables of approximately HK\$130,870,000 (31 December 2007: HK\$167,860,000), other payables and accruals of approximately HK\$235,228,000 (31 December 2007: HK\$94,439,000). The Group applied sound and flexible financial management, and has financed its business development by a combination of internal resources, equity financing and bank borrowings. Current ratio, defined as current assets over current liabilities, was 1.28. Debt to equity ratio, defined as total interest bearing bank borrowings divided by total equity, was 0.35.

Material Acquisition

On 9 May 2008, Haikou K.P.I. Trading Company Limited (海口港佳貿易有限公司*), a wholly-owned subsidiary of the Company, entered into a sales and purchase agreement with a third party in relation to the acquisition of the whole block of a commercial building situated at 88 North Xi San Huan Road, Haidian District, Beijing (the “Property”) for a cash consideration of RMB51,000,000. The Property is a three-storey commercial building (with basement) located in the prime commercial centre in Beijing with a gross area of about 3,313.1 square meter and is at present totally leased out to six tenants operating as retail shops with annual gross rental income of not less than RMB5 million. The acquisition of the Property was completed on 30 June 2008 and will provide the Group with a stable source of rental income.

Subsequent Event

On 3 July 2008, Beijing K.P.I. Hi-24 Business Company Limited (北京中港佳鄰商業有限公司*), non wholly-owned subsidiary of the Company, entered into an operating sub-contracting agreement and trademarks transfer agreement with Beijing K.P.I. Hi-24 Convenience Stores Company Limited (北京港佳好鄰居連鎖便利店有限責任公司*). By entering into the operation sub-contracting agreement and the trademarks transfer agreement, the Group has officially secured a foothold in Beijing’s convenience stores market, and thus expanded its chain store operation in Beijing.

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 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 to the Group.

(ii) *Interest rate risk*

The Group's income statement 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 2008 and 31 December 2007, the Group did not have interest-bearing financial asset 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 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. The credit risk on balances of cash and cash equivalents is low as these balances are placed with reputable financial institutions.

(iv) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and ability to close our market positions. The Group's objective is to maintain adequate credit lines to ensure 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 2008.

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

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

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

As at 30 June 2008, the debt to equity ratio was 35.3% (31 December 2007: 16.5%).

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 2008, the Group, including Hualian GMS, had approximately 4,000 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\$55,462,000, in which approximately HK\$2,684,000 was share-based payment expenses related to 68,500,000 share options granted to employees and directors in October 2007. Competitive remuneration packages and performance-based bonuses are structured to commensurate with individual responsibilities, qualification, experience and performance.

Contingent Liabilities

As at 30 June 2008, the Group has no significant contingent liabilities.

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

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

CORPORATE GOVERNANCE

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

Code provision A.2.1

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

AUDIT COMMITTEE

The Audit Committee, which comprises three independent non-executive directors, has reviewed the interim results for six months ended 30 June 2008. 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.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The results announcement is published on HKExnews at www.hkexnews.hk and the Company's website at www.kpi.com.hk.

The 2008 Interim Report will be despatched to shareholders and published on both websites in due course.

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

Hong Kong, 28 August 2008

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. Liu Hui as non-executive director, Mr. Wang Jian Sheng, Mr. Chan Chun Keung and Mr. Tsang Kwok Wai as independent non-executive directors.

The English name is not an official translation and is for reference purpose only.