K.P.I. COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 605)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Percentage change
	2010	2009	%
Turnover *(HK$'million)*	**217.0**	168.6	28.7
Gross profit *(HK$'million)*	**60.2**	38.1	58.0
Profit for the year attributable to owners of the Company *(HK$'million)*	**25.4**	26.3	-3.4
Basic earnings per share *(HK cents)*	**1.469**	1.524	-3.6
Cash and cash equivalents *(HK$'million)*	**340.0**	649.7	-47.7
Bank loans *(HK$'million)*	**42.1**	173.2	-75.7
Current ratio *(Note)*	**8.33**	1.15	624.3

Note:

The calculation of current ratio (times) is based on total current assets divided by total current liabilities as at 31 December.

The board of directors (the "Board") of K.P.I. Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010, together with the comparative audited consolidated figures for the previous year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	**2010**	2009
		HK$'000	*HK$'000*
Continuing operations			
Turnover	*4*	**217,022**	168,601
Cost of sales		**(156,800)**	(130,526)
Gross profit		**60,222**	38,075
Other revenue	*4*	**32,598**	27,045
Other net income	*4*	**49,958**	30,257
Change in fair value of investment property	*11*	**8,066**	7,939
Selling and distribution expenses		**(73,054)**	(51,359)
Administrative expenses		**(44,683)**	(26,854)
Profit from operations		**33,107**	25,103
Finance costs	*5*	**(1,550)**	(1,462)
Profit before taxation from continuing operations	*6*	**31,557**	23,641
Income tax	*7(a)*	**(4,565)**	(3,745)
Profit for the year from continuing operations		**26,992**	19,896
Discontinued operations			
Profit for the year from discontinued operations	*8*	**5,154**	22,718
Profit for the year		**32,146**	42,614

	Note	2010 HK$'000	2009 HK$'000
Other comprehensive income, net of income tax			
Exchange differences on translation of financial statements of overseas subsidiaries		**8,571**	358
Change in fair value of available-for-sale financial assets		**(6,724)**	16,057
Other comprehensive income for the year, net of income tax		**1,847**	16,415
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**33,993**	59,029
Profit for the year attributable to:			
Owners of the Company		**25,355**	26,303
Non-controlling interests		**6,791**	16,311
		32,146	42,614
Total comprehensive income attributable to:			
Owners of the Company		**26,270**	42,543
Non-controlling interests		**7,723**	16,486
		33,993	59,029
Earnings per share *(in HK cent)*	*10*		
From continuing and discontinued operations			
– Basic		HK1.469 cents	HK1.524 cents
– Diluted		HK1.459 cents	HK1.515 cents
From continuing operations			
– Basic		HK1.553 cents	HK0.850 cents
– Diluted		HK1.542 cents	HK0.845 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Note	**31/12/2010** **HK$'000**	31/12/2009 HK$'000 (Restated)	1/1/2009 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment		**3,624**	71,068	66,108
Land lease premium		**–**	–	–
Investment property	*11*	**73,959**	65,893	57,954
Intangible assets		**403**	160,479	167,431
Goodwill		**–**	377,972	377,972
Long term lease prepayment		**–**	7,516	8,591
Available-for-sale investments		**48,495**	38,365	21,774
		126,481	721,293	699,830
Current assets				
Inventories		**35,581**	222,949	219,514
Land lease premium		**–**	–	–
Accounts receivable	*12*	**1,143**	43,755	28,055
Short term loans receivable	*13*	**186,209**	52,365	–
Other receivables, deposits and prepayments		**160,814**	394,400	323,264
Financial assets at fair value through profit or loss		**35,558**	2,623	–
Tax recoverable	*7(b)*	**–**	567	567
Pledged deposits		**–**	174	339
Cash and cash equivalents		**339,954**	649,688	550,385
		759,259	1,366,521	1,122,124
Current liabilities				
Tax payable	*7(b)*	**1,510**	1,549	825
Accounts payable	*14*	**54,365**	550,785	457,387
Other payables, deposits received and accruals		**9,440**	479,042	370,417
Short term bank loans – secured		**4,650**	4,650	–
Short term bank loans – unsecured		**21,153**	147,443	169,587
		91,118	1,183,469	998,216
Net current assets		**668,141**	183,052	123,908
Total assets less current liabilities		**794,622**	904,345	823,738
Non-current liabilities				
Long-term bank loans – secured		**16,277**	21,096	–
Deferred tax liabilities		**4,203**	42,200	41,951
		20,480	63,296	41,951
NET ASSETS		**774,142**	841,049	781,787

	Note	**31/12/2010**	31/12/2009	1/1/2009
		HK$'000	*HK$'000*	*HK$'000*
			(Restated)	(Restated)
EQUITY				
Share capital		**174,600**	172,590	172,590
Reserves		**591,229**	564,243	521,550
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**765,829**	736,833	694,140
Non-controlling interests		**8,313**	104,216	87,647
TOTAL EQUITY		**774,142**	841,049	781,787

Notes:

1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised 2008)	Business Combinations
HK-Interpretation ("Int") 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

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

Amendments to HKAS 17 Leases, as part of Improvements to HKFRSs issued in 2009

HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payment to property, plant, and equipment retrospectively.

The effect of the adoption of the amendments to HKAS 17 is as follows:

	31 December 2010	31 December 2009	1 January 2009
	HK$'000	*HK$'000*	*HK$'000*
Decrease in prepaid lease payments	**(858)**	(881)	(905)
Increase in property, plant and equipment	**858**	881	905

The application of the amendments to HKAS 17 has had no impact on the reported profit or loss for the current and prior years.

New/revised HKFRSs not adopted

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2010.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 9	Financial instruments[7]
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HK(IFRIC) – Int 14 (Amendments)	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 July 2011.*

[6] *Effective for annual periods beginning on or after 1 January 2012.*

[7] *Effective for annual periods beginning on or after 1 January 2013.*

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKSA 39, the entire amount of the changes in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the assets. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. To date, the Group has not entered into transactions involving transfers of financial assets. However, if the Group enters into any such transactions in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

The amendments to HKAS 32 titled Classification of Rights issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

The amendments to HK(IFRIC)-Int 14 require entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendments are unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 19 provides guidance regarding the accounting the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into such transactions in the future, HK(IFRIC)-Int 19 will affect the required accounting. In particular, under HK(IFRIC)-Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

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

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

3. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports which provide information about components of the Group. These information are reported to and reviewed by the Board of Directors, the chief operating decision-makers for the purpose of resource allocation and performance assessment.

The Group has presented the segment information by the following categories. These segments are managed separately.

1. Convenience stores

2. All others

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

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

Segment profit represents the profit earned by each segment without allocation of central administration costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment. Taxation charge/(credit) is not allocated to reportable segment.

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

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

The two reportable operating segments are listed as follows:

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

ii) All others comprised, principally, short term financing business, trading of financial securities and property investment.

The supermarket chain operation was discontinued in the current year. The segment information reported on the below does not include any amount for this discontinued operation, which is described in more details in note 8.

The following is an analysis of the Group's revenue and results from continuing operations by reportable segments.

	Convenience store		All others		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	**HK$'000**	*HK$'000*
Revenue from external customer	**201,515**	164,967	**12,937**	3,467	**214,452**	168,434
Interest revenue	**–**	–	**2,570**	167	**2,570**	167
Reportable segment revenue	**201,515**	164,967	**15,507**	3,634	**217,022**	168,601
Reportable segment profit before taxation	**936**	2,727	**29,196**	15,364	**30,132**	18,091
Interest income	**319**	315	**132**	68	**451**	383
Interest expenses	**–**	–	**(1,550)**	(1,462)	**(1,550)**	(1,462)
Depreciation and amortisation	**–**	–	**(731)**	(531)	**(731)**	(531)
Income tax	**(292)**	(726)	**(4,273)**	(3,019)	**(4,565)**	(3,745)
Reportable segment assets	**126,900**	86,602	**755,091**	199,992	**881,991**	286,594
Additions to non-current segment assets	**–**	–	**2,041**	412	**2,041**	412
Reportable segment liabilities	**(59,998)**	(29,944)	**(50,979)**	(28,048)	**(110,977)**	(57,992)

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

	2010	2009
	HK$'000	*HK$'000*
Revenue		
Reportable segments' revenue	**217,022**	168,601
Consolidated revenue	**217,022**	168,601
Profit		
Reportable segments' profit derived form Group's external customers	**30,132**	18,091
Unallocated other revenue	**22,870**	16,653
Unallocated head office and corporate expenses	**(21,445)**	(11,103)
Consolidated profit before taxation	**31,557**	23,641
Assets		
Reportable segments' assets	**881,991**	286,594
Unallocated head office and corporate assets	**3,749**	1,252
Consolidated total assets	**885,740**	287,846
Liabilities		
Reportable segments' liabilities	**(110,977)**	(57,992)
Unallocated head office and corporate liabilities	**(621)**	(153)
Consolidated total liabilities	**(111,598)**	(58,145)

c) 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 People's Republic of China ("PRC"), no analysis on revenue from external customers and non-current assets by location are presented.

d) Information about major customers

The Group has a very wide customer base, no single customer contributed more than 10% of the Group's revenue for each of the years ended 31 December 2009 and 2010.

4. TURNOVER, OTHER REVENUE AND OTHER NET INCOME

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

Turnover represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts in convenience stores and sales of food products and financial service income and interest income arising from provision of short term financing services in short term financing business during the year.

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
Turnover		
Convenience store operations	**201,515**	164,967
Sales of food products	**–**	671
Interest income on provision of short term financing services	**2,570**	167
Short term financing service income	**12,937**	2,796
	217,022	168,601
Other revenue		
Bank interest income, being total interest income on financial assets not at fair value through profit or loss	**451**	383
Rental receivable from operating leases, less direct outgoings of Nil (2009: Nil)	**6,284**	6,114
Dividend income from listed investments	**560**	442
Promotion and store display income from suppliers	**25,303**	20,106
	32,598	27,045
Other net income		
Gain on disposal of financial assets at fair value through profit or loss	**2,650**	3,273
Gain on disposal of available-for-sale financial assets	**9,864**	1,567
Exchange gain, net	**5,236**	–
Compensation	**22,870**	–
Reversal of impairment loss on other loans receivables	**–**	16,653
Income from government subsidies	**976**	2,151
Gross rental income from sub-leasing of shop premises	**3,659**	4,163
Others	**4,535**	2,450
Gain on disposal of property, plant and equipment	**168**	–
	49,958	30,257

5. FINANCE COSTS

	Group	
	2010	2009
	HK$'000	*HK$'000*
Continuing operations		
Interest expense on bank loans, bank overdrafts and other loans repayable within five years, being total interest expense on financial liabilities not at fair value through profit or loss	**1,550**	1,462

6. PROFIT BEFORE TAXATION FROM CONTINUING OPERATIONS

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

	2010	2009
	HK$'000	*HK$'000*
Continuing operations		
Depreciation	**731**	531
Amortisation of intangible assets	**18**	18
Operating lease payments – land and buildings	**28,248**	21,556
Auditors' remuneration	**950**	950
Cost of inventories	**156,126**	130,373
Staff costs (including directors' remuneration):		
Salaries, allowances and other benefits	**39,392**	25,320
Pension scheme contribution	**5,970**	4,625
Equity settled share-based payment expenses	**7,788**	–
	53,150	29,945

7. INCOME TAX (RELATING TO CONTINUING OPERATIONS)

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
Current tax		
PRC Enterprise Income Tax	**2,232**	1,762
Under-provision of PRC Enterprise Income Tax in prior years	**316**	–
Deferred tax		
Current year	**2,017**	1,983
Tax charge	**4,565**	3,745

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

	2010	2009
	HK$'000	*HK$'000*
Profit before taxation from continuing operations	**31,557**	23,641
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**8,042**	5,409
Income not subject to taxation	**(10,040)**	(7,387)
Expenses not deductible for taxation purposes	**1,908**	2,394
Effect of depreciation allowance	**(79)**	(15)
Utilisation of tax losses previously not recognised	**(787)**	(529)
Deferred tax assets not recognised	**3,188**	1,890
Deferred taxation	**2,017**	1,983
Under-provision in prior years	**316**	–
Tax charge	**4,565**	3,745

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

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

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
At 1 January	**(982)**	(258)
Provision for the year		
– PRC taxation	**(2,232)**	(1,762)
Under provision in prior year	**(316)**	–
Taxation paid for PRC enterprise	**2,020**	1,038
At 31 December	**(1,510)**	(982)
Analysed for reporting purposes as:		
Tax recoverable	**–**	567
Tax payables	**(1,510)**	(1,549)
	(1,510)	(982)

8. DISCONTINUED OPERATIONS

On 24 March 2010, K.P.B. Marketing Limited ("K.P.B."), an indirect wholly-owned subsidiary of the Company entered into a sale agreement with Best Links (HK) Co., 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 the equity interests in Hualian GMS which mainly engaged in supermarket operations, at a consideration of approximately HK$504 million. The disposal of the supermarket operations is consistent with the Group's long-term policy to focus its resources in the convenience stores chain operation and provision of short-term financing service operations. The disposal was completed on 19 August 2010, on which date control of the supermarket operations passed to the acquirer. Details of the assets and liabilities disposed of, and the calculation of the profit or loss on disposal, are disclosed below:

Analysis of profit for the year from discontinued operations

The results of the discontinued operation (i.e. supermarket operation) included in the consolidated statement of comprehensive income and consolidated statement of cash flows are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

	2010	2009
	HK$'000	HK$'000
Profit for the year from discontinued operations		
Turnover	**1,214,880**	1,904,483
Cost of sales	**(1,095,840)**	(1,693,382)
Other gains	**143,206**	216,622
Expenses	**(246,734)**	(403,358)
Profit before tax	**15,512**	24,365
Income tax expense	**(2,278)**	(1,647)
	13,234	22,718
Loss on disposal of operations	**(8,080)**	–
Profit for the year from discontinued operations attributable to owners of the Company	**5,154**	22,718
Profit for the year from discontinued operations include the following:		
Depreciation and amortisation	**24,546**	31,648
Cash flows from discontinued operations		
Net cash inflows from operating activities	**115,979**	4,165
Net cash (outflows)/inflows from investing activities	**(23,704)**	93,281
Net cash outflows from financing activities	**(92,801)**	(8,870)
Net cash (outflows)/inflows	**(526)**	88,576

9. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2010 (2009: Nil).

10. EARNINGS PER SHARE

From continuing and discontinued operations

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

	2010	2009
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**25,355**	26,303

	2010	2009
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,725,935,213**	1,725,902,336
Effect of deemed issue of shares under the Company's share options scheme	**12,326,592**	10,550,372
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,738,261,805**	1,736,452,708

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	2010	2009
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company	**25,355**	26,303
Adjustment for loss/(profit) for the year from discontinued operations	**1,456**	(11,629)
Earnings for the purpose of basic earnings per share from continuing operations attributable to owners of the Company	**26,811**	14,674

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operations

Basic (loss)/earnings per share for the discontinued operations attribuable to owners of the Company is HK(0.084) cents per share (2009: HK0.674 cents per share) and diluted (loss)/earnings per share for the discontinued operations attributable to owners is HK(0.084) cents per share (2009: HK0.670 cents per share), based on the (loss)/profit for the year from the discontinued operations of the Company of HK$(1.46) million (2009: HK$11.63 million) and the denominators detailed above for both basic and diluted earnings per share.

11. INVESTMENT PROPERTY

	Group	
	2010	2009
	HK$'000	*HK$'000*
At valuation:		
At 1 January	**65,893**	57,954
Increase in fair value	**8,066**	7,939
At 31 December	**73,959**	65,893

The Group's investment property is situated at No.88, Xi San Wan Road North, Hai Ding District, Beijing. It is held under a long term lease for rental purpose. It was stated at fair value as at 31 December 2010. The investment property was revalued on 31 December 2010 by 北京六合正旭資產評估有限公司, an independent qualified valuer, who have among their staff members of the Ministry of Construction of the People's Republic of China with recent experience in the location and category of property being valued. The valuation, which conform to the 房地產估價規範, were based on either capitalization of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties and on direct comparison approach assuming sale of each of these properties in its existing state with the benefit of vacant possession by making reference to comparable sales transactions as available in the relevant market.

The Group's investment property was pledged to a bank in the PRC to secure banking facilities granted to a subsidiary of the Group in February 2010.

12. ACCOUNTS RECEIVABLE

	Group	
	2010	2009
	HK$'000	*HK$'000*
Accounts receivable	**1,143**	43,755

All the accounts receivable are expected to be recovered within one year. The carrying amount of accounts receivable approximate to their fair values.

Accounts receivable are due within 30 days from date of billing.

a) Aging analysis

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

	2010	2009
	HK$'000	*HK$'000*
Outstanding balances with ages		
Due within 1 month or on demand	**1,143**	43,348
Due after 1 month but within 3 months	**–**	407
	1,143	43,755

b) Accounts receivable that are not impaired

	2010	2009
	HK$'000	*HK$'000*
Neither past due nor impaired	**1,143**	43,348

Accounts receivable that were neither past due nor impaired relate to recognised and creditworthy customers for whom there was no recent history of default.

The Group does not hold any collateral or other credit enhancements over these balances.

13. SHORT TERM LOANS RECEIVABLE

	Group	
	2010	2009
	HK$'000	*HK$'000*
Loans advanced	**328,359**	139,174
Repayment during the year	**(142,150)**	(87,483)
Exchange adjustment	**–**	674
Balance carried forward	**186,209**	52,365

The Group offers loans secured by tangible personal property, such as real estates, commonly known as short term loans. A typical short term loan generally has a term of 30 days to 360 days.

a) Aging analysis

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

	2010	2009
	HK$'000	*HK$'000*
Outstanding balances with ages		
Due within 1 month or on demand	**186,209**	52,365

b) Short term loans receivable

	2010	2009
	HK$'000	*HK$'000*
Neither past due nor impaired	**186,209**	52,365

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

c) All the Group's short term loans receivable in the PRC were denominated in RMB. The short term loans receivable in the PRC carry interest plus service charge at a monthly effective rate of 1% to 3.2%.

Short term loans receivable included an amount of HK$40 million lent to a 國家級美術雕塑家, 李鳳強先生, on 20 December 2010. The loan is repayable within 1 year with an annual interest rate of 12%. 12 sculptures of total selling price of approximately HK$127.3 million were pledged to the Group in respect of the loan.

14. ACCOUNTS PAYABLE

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
Outstanding balances with ages		
Due within 1 month or on demand	**20,328**	211,118
Due after 1 month but within 3 months	**34,037**	339,667
	54,365	550,785

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

15. COMPARATIVE FIGURES

As a result of the amendments of HKAS 17, Leases, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2010. Further details of these developments are disclosed in note 2.

16. EVENT AFTER THE REPORTING PERIOD

a) *Acquisition of subsidiaries*

On 27 January 2011, a wholly owned subsidiary of the Company has entered an acquisition agreement with the controlling shareholder, Mr Cheung Siu Lam, to acquire the entire issued share capital of K.P. Financial Group Limited which indirectly has beneficial interests in 70% of the equity interests in Beijing Huifeng Rongjin Creidt Finance Company Limited and 100% of the equity interests in Beijing Huaxia Xingye Investment Guarantee Company Limited. The Company decides to acquire the above mentioned companies in order to stay focus on providing small loans, loan guarantee, entrusted loans and consultancy services to meet immediate financing needs of customers in PRC. With the amount of cash available and there is a huge demand for funding in the private enterprises sector in the PRC, the management believes it would be a great opportunity to build a platform to meet a wide range of customer needs.

b) *Change of Company Name*

In the announcement on 7 March 2011, the Board announces that it intended to put forward a proposal to the shareholders to change the name of the Company from "K.P.I. Company Limited 港佳控股有限公司" to "China Financial Services Holdings Limited 中國金融投資管理有限公司".

17. **OTHER INFORMATION**

The consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2010 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor, CCIF CPA Limited. The unqualified auditor's report will be included in the Annual Report to shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group was principally engaged in retail business and provision of short term pawn loan in the PRC.

Business Review

The Group has discontinued its retail business in Shanghai by disposal of its entire 60% interest in Hualian GMS Shopping Center Company Limited, a company principally engaged in hypermarket chain operation mainly in Shanghai and nearby provinces such as Jiangsu and Zhejiang, PRC, in August 2010. The Group will devote more time and resources to strengthening its market leadership in convenience store business in Beijing and further expanding its short term financing business.

In the face of the saturated convenience store market in Shanghai, Beijing K.P.I. Hi-24 Convenience Stores Company Limited (the "Hi-24"), following its strategic adjustment in 2009, continued to implement its development strategies for the Beijing market in 2010, increased its presence in Beijing and expanded its market share. Despite the keen competition from international and domestic players who are targeting the convenience store market in Beijing, Hi-24 has been able to achieve satisfactory operating results in 2010.

In 2010, the sales of Hi-24, including sales of business partners operating within our Hi-24 stores, recorded a year-on-year growth of 22.2%. Our overall gross profit increased by approximately 28.3% as compared with the corresponding period of 2009, while our consolidated gross margin increased by 3.5% to 38.8% from 37.5% in the corresponding period of 2009. 2010 has been the fastest growing year of Hi-24 so far. The sales of its 120 comparable stores, excluding sales made through coupons but including sales of business partners operating within our Hi-24 stores, recorded a year-on-year growth of 7.3%, of which a growth of approximately 15% was basically maintained in the second half of the year. Meanwhile, the daily average sales of our Hi-24 stores, excluding sales made through coupons but including sales of business partners operating within our Hi-24 stores, reached a record high in terms of single-store sales.

Hi-24 has committed itself to exploring the market in Beijing and speeding up the expansion of its retail network through establishing more self-owned stores and franchise stores. In 2010, Hi-24 opened 19 new stores and closed down 9 stores, making up a total number of 177 stores.

Hi-24 has been carrying out improvements and renovations to its stores according to plan while implementing a policy of reasonable pricing and constant optimization of its inventory composition and display, so as to ensure fast-selling products are displayed appropriately and new merchandises are put on shelves promptly. Hi-24 has endeavoured to enhance its store image to attract more new customers, driving growth in store sales with increased patronage and sales per customer. Hi-24 has also developed and adopted various marketing and promotional sales campaigns, such as discounted purchase for designated invoice amount, category discounts, half price for a second item and special offers during festive occasions, which have proved to be immensely popular among consumers. At the same time, Hi-24 has endeavoured to diversify its business by introducing joint operators. For example, Hi-24 has introduced new featured outlets selling puff, fast food and beverages prepared in-store to attract consumers.

In addition, Hi-24 has vigorously promoted the development of the fast food business to cater to the daily needs of the general public, especially workers and students. Stores with fast food service generally recorded an increase in both average daily sales and patronage. Hi-24's fast food business was just at its inception stage in 2010, which recorded sales revenue of RMB5.85 million, representing 2.90% of Hi-24's total sales revenue. Sales revenue from Hi-24's fast food business amounted to approximately RMB1.03 million in December 2010 alone, and increased substantially to approximately RMB2.00 million in March 2011.

During 2010, Hi-24 identified group purchase customers as a new niche for growth as it took full advantage of its large-scale regional operation, dense network of store outlets, good product quality, competitive prices and friendly and efficient services.

In September 2010, Hi-24 secured an opportunity to serve the International Tennis Tournament Championships as an official designated vendor and the only designated convenience store in the tennis court. Hi-24 effectively enhanced the recognition of its brand name when it was placed side–by-side with international brands for the first time in China Open events. Relying on good teamwork, prompt and efficient distribution of goods, good brand promotion arrangements, quality and cheap merchandise as well as fast and nice service offered at the China Open site, Hi-24 won high praise from the organizers of China Open while achieving good results, laying the groundwork for the Hi-24 to participate in similar activities in the future.

As part of its efforts to improve I.T. and logistics technologies, Hi-24 introduced 3G network into its operation, which not only accelerated the operating speed of the system but also reduced communication costs. Besides, it switched its data system to lower its expenses and combined low and normal temperature logistics to cut logistics costs. It also planned to build a self-owned logistics system gradually, to change and improve the working procedure for every part of operations and improve the efficiency of delivery, turning from cost-efficient operation to profit-oriented operation in the future.

In 2010, Hi-24 put more efforts on the development of a training system for grass-root cadres and attached importance to cultivating backbone staff among existing employees for the future. It provided staff with a learning and development platform. A total of 41 employees were formally appointed as store managers after having attended training sessions and passed strict examinations.

The prolonged delay in adjustment of the Chinese minimum wages due to impact of the global financial crisis in 2009 put more pressure on the growth of staff costs in 2010. While striving to enhance operation performance, improve salary policy and increase work efficiency through effective control of staff numbers, Hi-24 raised the wages of front-line staff and front-line managerial personnel in 2010, which consequently led to an overall increase in staff wages, benefits and social insurance and resulted in the increase of staff costs accordingly. However, with the concerted efforts of all staff in the company, we achieved a record of high growth in sales and successfully offset the adverse effect of higher staff costs. In 2011, with merchandise prices going up and further upward adjustment of the minimum wages, Hi-24 will face greater pressure on staff costs, which can only be offset by increasing its daily sales volume.

Hi-24 will face a year full of changes in 2011. In addition to the pressure of higher staff costs, Hi-24 also faces higher rents that landlords demand as convenience stores expand rapidly in Beijing and fewer and fewer shops are available in good locations. Currently, market rentals for shops with street frontage at relatively good locations are above RMB250,000 per year, which requires a higher daily sales volume to pay for the lease. Furthermore, when accelerating new store openings in 2011, Hi-24 will face huge challenges to its operation costs including the inelastic increment utility fees which are driven by rising oil prices. Despite the above adverse factors, after more than ten years' development and accumulation of experience and with the leveraging of its regional advantage, the management is confident that Hi-24 will be able to achieve higher sales growth and strengthen the competitiveness of its management capability by taking various measures. These measures will include promoting the development of logistics, enhancing the construction of information technology, improving store management, focusing on brand building and introducing the 'latter 5% of Trade Category Management concept', and launching and improving service programs relating to sales promotion of fast-food, self-owned brands, E-commerce site, group-buying and coupons.

Revenue derived from short-term financing money lending services in 2010 was about HK$15.5 million, an increase of 416.7% as compared with HK$3.0 million in 2009. Net profit after taxation amounted to approximately HK$4.9 million, an increase of 276.9% as compared with HK$1.3 million in 2009. More resources will be deployed in this business as the profitability level is very attractive.

Financial Review

Turnover, Gross Profit and Expenses

Turnover from continuing operations for 2010 was about HK$217.0 million, representing an increase of HK$48.4 million or 28.7% as compared with HK$168.6 million in 2009. Gross profit for 2010 was approximately HK$60.2 million, representing an increase of HK$22.1 million or 58.0% as compared with HK$38.1 million in 2009. Gross profit margin for 2010 was 27.7%, as compared to 22.6% in 2009. Selling and distribution expenses and administrative expenses for the year represented 33.7% and 20.6% of turnover from continuing operations respectively, as compared with 30.5% and 15.9% of last year.

Other Revenue and Other Net Income

Other revenue and other net income for 2010 was approximately HK$82.6 million, representing an increase of 44.2% over HK$57.3 million for 2009. The increase in other revenue and other net income was mainly attributable to gain on disposal of availabe-for-sale financial assets and a compensation received from ARC Capital Holdings Limited pursuant to the Cancellation Agreement entered into among Hualian GMS Shopping Centre Company Limited Shanghai XinMeng Investment Company Limited and ARC Capital Holdings Limited. Details of the announcements was published on 28 January 2010.

Finance Costs

Finance costs from continuing operations for 2010 were approximately HK$1.6 million, representing an increase of 6.7% over HK$1.5 million for 2009.

Profit for the Year Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for 2010 was approximately HK$25.4 million, representing a decrease of 3.4% as compared with HK$26.3 million in 2009.

Capital Structure, Liquidity and Financial Resources

The Group's total assets decreased by 57.6% to HK$885.7 million (2009: HK$2,087.8 million), mainly comprising property, plant and equipment of approximately HK$3.6 million, investment property of approximately HK$74.0 million and available-for-sale investments and financial assets at fair value through profit or loss of approximately HK$84.1 million, inventory of approximately HK$35.6 million, short term loans receivable and other receivables, deposits and prepayments of approximately HK$347.0 million and bank deposits and cash of about HK$340.0 million.

The Group's bank borrowings were about HK$42.1 million. The debt maturity profile of the Group as at 31 December 2010 is analyzed below:

	2010	2009
	HK$ Million	*HK$ Million*
Within 1 year	**25.8**	152.1
After 1 year but within 5 years	**16.3**	20.5
Over 5 years	**–**	0.6
	42.1	173.2

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

	2010	2009
	HK$ Million	*HK$ Million*
Investment property	**74.0**	65.9

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2010. The Group may become involved in certain legal proceedings relating to claims arising out of operations in the normal course of business. However, none of these proceedings, individually or in aggregate, is expected to have material adverse effect on the Group's financial situation or operational results.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company considers that good corporate governance practices to be essential to the promotion of shareholder value and investor confidence.

The Company has applied the principles as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

Throughout the year under review, the Company has complied with the code provisions as set out in the CG Code, save for the deviations from code provisions A.1.1, A.2.1 and A.5.1.

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

The Company does not announce its quarterly results and hence not consider the holding of quarterly meetings as necessary. The Board met two times during the year ended 31 December 2010 for approving the final results for the year ended 31 December 2009 and interim results for the period ended 30 June 2010.

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 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.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE OF THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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. All 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 year ended 31 December 2010.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company, which comprises all independent non-executive directors, has reviewed the consolidated financial statements of the Group for the year, including the accounting principles and accounting standards adopted by the Company, and discussed matters relating to auditing, internal controls and financial reporting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 13 May 2011 to Wednesday, 18 May 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Tengis Limited of 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 12 May 2011.

SCOPE OF WORK OF CCIF CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2010 as set out in the preliminary announcement have been agreed by the Group's auditor, CCIF CPA Limited, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by CCIF CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by CCIF CPA Limited on the preliminary announcement.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

This announcement will be published on the Stock Exchange's website and the Company's website (www.kpi.com.hk). The 2010 Annual Report will also be published on the Stock Exchange's website and the Company's website and will be despatched to the shareholders of the Company.

ACKNOWLEDGEMENT

The Board would like to take this opportunity to express our sincere thanks to all stakeholders for their supports during the year.

On behalf of the Board
K.P.I. Company Limited
Cheung Siu Lam
Chairman and CEO

Hong Kong, 29 March 2011

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