

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.



中金投集团

China Financial Services Holdings Ltd

China Financial Services Holdings Limited

(formerly known as K.P.I. Company Limited (港佳控股有限公司))

(Incorporated in Hong Kong with limited liability)

(Stock Code: 605)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

FINANCIAL HIGHLIGHTS

	Unaudited six months ended 30 June 2011 (HK\$'000)	Unaudited six months ended 30 June 2010 (HK\$'000)	Percentage changes
Turnover	138,820	102,077	36.0%
Gross profit	49,194	30,549	61.0%
Profit for the period attributable to owners of the Company	5,890	24,689	-76.1%
Basic earnings per share	HK0.32 cent	HK1.43 cents	-77.6%

FINANCIAL RESULTS

The Board of Directors (the “Board”) of China Financial Services Holdings 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 2011 (the “Reporting Period”) together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		(Unaudited) For the six months ended 30 June	
		2011	2010
Continuing operations	Note	HK\$'000	HK\$'000
Turnover	6	138,820	102,077
Cost of sales		(89,626)	(71,528)
Gross profit		49,194	30,549
Other revenue	6	18,057	38,790
Other net income	6	2,652	9,866
Selling and distribution expenses		(36,430)	(27,398)
Administrative expenses		(23,181)	(25,993)
Finance costs		(726)	(2,802)
Profit before taxation from continuing operations	7	9,566	23,012
Income tax	8	(3,143)	(2,097)
Profit for the period from continuing operations		6,423	20,915
Discontinued operations			
Profit for the period from discontinued operations		–	9,283
Profit for the period		6,423	30,198
Other comprehensive income:			
Exchange differences on translating of financial statements of overseas subsidiaries		4,023	2,873
Loss on revaluation of available-for-sale financial assets		–	(3,720)
Transfer to statement of comprehensive income for disposal of available-for-sale financial assets		849	(5,687)
Other comprehensive income/(loss) for the period		4,872	(6,534)
Total comprehensive income for the period		11,295	23,664

		(Unaudited)	
		For the six months	
		ended 30 June	
		2011	2010
Continuing operations	<i>Note</i>	HK\$'000	HK\$'000
Profit attributable to:			
Owners of the company		5,890	24,689
Non-controlling interests		533	5,509
		6,423	30,198
Total comprehensive income attributable to:			
Owners of the Company		10,072	18,155
Non-controlling interests		1,223	5,509
		11,295	23,664
Earnings per share (in HK cent)			
From continuing and discontinued operations	<i>9</i>		
– Basic		HK0.32 cent	HK1.43 cents
– Diluted		HK0.32 cent	HK1.43 cents
From continuing operations			
– Basic		HK0.32 cent	HK1.19 cents
– Diluted		HK0.32 cent	HK1.19 cents
Dividends	<i>20</i>	Nil	Nil

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
	Note		
Non-current assets			
Property, plant and equipment		3,871	3,624
Investment property	10	75,677	73,959
Intangible assets		394	403
Goodwill	11	574,730	–
Available-for-sale investments		54,729	48,495
		709,401	126,481
Current assets			
Accounts and interests receivable	13	17,632	1,143
Short term loans receivable	12	402,110	186,209
Financial assets at fair value through profit or loss		12,489	35,558
Inventories		39,220	35,581
Other receivables, deposits and prepayments		230,962	160,814
Cash and cash equivalents		298,873	339,954
		1,001,286	759,259
Current liabilities			
Tax payable		20,867	1,510
Accounts payable	14	41,007	54,365
Other payables, deposits received and accruals		120,949	9,440
Deferred income		1,008	–
Contingent liabilities		500	–
Short term bank loans – secured	15	1,422	4,650
Short term bank loans – unsecured	15	–	21,153
		185,753	91,118
Net current assets		815,533	668,141
Total assets less current liabilities		1,524,934	794,622

		30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
	<i>Note</i>		
Non-current liabilities			
Long term bank loan - secured	15	17,040	16,277
Deferred tax liabilities	8	4,203	4,203
		21,243	20,480
NET ASSETS		1,503,691	774,142
Equity			
Share capital	16	299,700	174,600
Reserves		1,176,280	591,229
Total equity attributable to equity shareholders of the Company		1,475,980	765,829
Non-controlling interests		27,711	8,313
TOTAL EQUITY		1,503,691	774,142

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting”

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial instruments classified as available-for-sale or as financial assets at fair value through profit or loss, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2011 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2010, except as described below.

In the current interim period, the Group has applied, for the first time, the following new or revised standard and interpretations (“new or revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”):

- Improvements to HKFRSs issued in 2010
- HKAS 24 (as revised in 2009) “Related party disclosure”
- Amendments to HKAS 32 “Classification of rights issues”
- Amendments to HK (IFRIC) – INT 14 “Prepayments of a minimum funding requirement”
- HK (IFRIC) – INT 19 “Extinguishing financial liabilities with equity instruments”

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

New/revised HKFRS not adopted

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

New standards and amendments		Effective for accounting periods beginning on or after
HKFRS 7 Amendment	Financial Instruments: Disclosures – Transfer of Financial Assets	1st July 2011
HKFRS 9	Financial Instruments	1st January 2013
HKFRS 10	Consolidated Financial Statements	1st January 2013
HKFRS 11	Joint Arrangements	1st January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1st January 2013
HKFRS 13	Fair Value Measurements	1st January 2013
HKAS 1 Amendment	Presentation of Financial Statements	1st July 2012
HKAS 12 Amendment	Deferred Tax: Recovery of Underlying Assets	1st January 2012
HKAS 19 Amendment	Employee Benefits	1st January 2013
HKAS 27 Amendment	Separate Financial Statement	1st January 2013
HKAS 28 Amendment	Investments in Associate and Joint Ventures	1st January 2013

The Group has not early adopted the above standards and amendments and is not yet in a position to state whether substantial changes to the Group’s accounting policies and presentation of accounts will result.

3. FINANCIAL RISK MANAGEMENT

All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the annual accounts for the year ended 31st December 2010.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions applied in the preparation of the condensed interim financial information are consistent with those used in the annual accounts for the year ended 31st December 2010.

5. SEGMENTAL 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. Retail business
2. Short term financing and consultancy business

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

Segment revenue, results, assets and liabilities mainly include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(a) An analysis of the Group's revenue and results by operating segments is as follows:

Six months ended 30 June

	Retail business		Short term financing		Total	
	2011	2010	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	118,920	92,727	16,290	8,056	135,210	100,783
Interest revenue	75	—	3,535	1,294	3,610	1,294
Reportable segment revenue	118,995	92,727	19,825	9,350	138,820	102,077
Reporting segment profit before taxation	2,465	1,949	11,778	4,316	14,243	6,265
Reportable segment assets	280,588	125,669	1,167,793	54,192	1,448,381	179,861
Reportable segment liabilities	(52,424)	(66,915)	(26,106)	(738)	(78,530)	(67,653)

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Revenue		
Reportable segments' revenue	<u>138,820</u>	<u>102,077</u>
Consolidated revenue	<u><u>138,820</u></u>	<u><u>102,077</u></u>
Profit		
Reportable segments' profit derived from Group's external customers	14,243	6,265
Unallocated other revenue and income	7,606	37,219
Unallocated corporate expenses	<u>(12,283)</u>	<u>(20,472)</u>
Consolidated profit before taxation	<u><u>9,566</u></u>	<u><u>23,012</u></u>
Assets		
Reportable segments' assets	1,448,381	179,861
Unallocated corporate assets	<u>262,306</u>	<u>440,683</u>
Consolidated total assets	<u><u>1,710,687</u></u>	<u><u>620,544</u></u>
Liabilities		
Reportable segments' liabilities	(78,530)	(67,653)
Unallocated corporate liabilities	<u>(128,466)</u>	<u>(310,425)</u>
Consolidated total liabilities	<u><u>(206,996)</u></u>	<u><u>(378,078)</u></u>

(c) Geographical Information

The geographical location of customers is based on the location at which the goods or services 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 period ended 30 June 2010 and 2011.

6. TURNOVER, OTHER REVENUE AND OTHER INCOME

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

	(Unaudited)	
	For the six months	
	ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Turnover		
Convenience store chain operations	118,920	92,727
Interest income on provision of short term financing service	3,610	1,294
Loan management service income	1,158	–
Financing consultancy service income	15,127	8,056
Loan guarantee service income	5	–
	138,820	102,077
Other revenue		
Dividend income	613	93
Bank interest income	11	9
Other interest income	153	20
Income from government subsidies	–	–
Gross rental income from investment property	3,621	3,732
Gross rental income from leasing of shop premises	–	–
Promotion and store display income from suppliers	13,103	11,626
Other	556	456
Compensation income	–	22,854
	18,057	38,790
Other net income		
Gain on sales of marketable securities	–	47
Gain on realisation of share options	397	841
Gain on sales of available-for-sale financial assets	1,970	9,063
Exchange gain, net	(110)	10
Change in fair value of financial assets at fair value through profit or loss, net	395	(95)
	2,652	9,866

7. PROFIT BEFORE TAXATION FROM CONTINUING OPERATIONS

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

	(Unaudited) For the six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Auditor's remuneration	480	500
Amortisation of land lease premium	6	6
Amortisation of intangible assets	9	9
Cost of inventories sold	89,626	71,527
Depreciation	255	221
Operating lease payments	14,849	11,478
Staff cost	22,913	25,196
	<u>22,913</u>	<u>25,196</u>

8. INCOME TAX (RELATING TO CONTINUING OPERATIONS)

	(Unaudited) For the six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Current Taxation		
Hong Kong profits tax (under provision in previous years)	–	316
PRC enterprise income tax	3,143	1,781
Deferred taxation	–	–
	<u>3,143</u>	<u>2,097</u>
Tax charge for the period	<u>3,143</u>	<u>2,097</u>

Hong Kong profits tax has been provided for at the rate of 16.5% (2010: 16.5%) on the estimated net assessable profits for the Reporting Period.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2010: 25%).

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

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

	Revaluation of investment property HK\$'000	Total HK\$'000
Deferred tax arising from:		
At 1 January 2011	4,203	4,203
(Credited)/charged to profit or loss	<u>—</u>	<u>—</u>
At 30 June 2011	<u>4,203</u>	<u>4,203</u>

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

The Group has not recognised the deferred tax assets in respect of the tax losses of HK\$18,442,000 (31 December 2010: HK\$19,484,000) due to unpredictability to future profit streams. The unrecognised tax losses, mainly arising from companies incorporated in Hong Kong, can be carried forward indefinitely.

9. EARNINGS PER SHARE

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:

	(Unaudited) For the six months ended 30 June 2011 HK\$'000	2010 HK\$'000
Profit for the year attributable to owners of the Company	5,890	24,689
Adjustment for loss/(profit) for the year from discontinued operations	<u>—</u>	<u>(4,182)</u>
Earnings for the purpose of basic earnings per share from continuing operations attributable to owners of the Company	<u>5,890</u>	<u>20,507</u>

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

From discontinued operations

Basic earnings per share for the discontinued operations attributable to owners of the Company is HK0.24 cent per share and diluted earnings per share for the discontinued operations attributable to owners is HK0.24 cent per share for the period 6 months ended 30 June 2010.

a) *Basic earnings per share*

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

	(Unaudited) For the six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Earnings		
Earnings for the purpose of basic earnings per share (Profit attributable to owners of the Company)	5,890	24,689
	Number of shares	
Number of shares:		
Issued ordinary shares at 1 January	1,746,002,336	1,725,902,336
Shares issued under share option scheme	1,000,000	–
Share issued pursuant to acquisition	1,250,000,000	–
	2,997,002,336	1,725,902,336
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,843,586,843	1,725,902,336

b) *Diluted earnings per share*

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

	2011	2010
Weighted average number of shares (diluted):		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,843,586,843	1,725,902,336
Effect of deemed issue of shares under the Company's share options scheme	5,167,921	6,311,187
Weighted average number of ordinary share (diluted)	1,848,754,764	1,732,213,523

10. INVESTMENT PROPERTY

	<i>HK\$'000</i>
At valuation	
At 1 January 2011 (audited)	73,959
Exchange adjustment	<u>1,718</u>
At 30 June 2011 (unaudited)	<u><u>75,677</u></u>

11. GOODWILL

	<i>HK\$'000</i>
Cost	
At 1 January 2011 (audited)	<u>—</u>
Additions through acquisition of subsidiaries (note 19)	<u>574,730</u>
At 30 June 2011 (unaudited)	<u><u>574,730</u></u>
Accumulated impairment	
At 1 January and 30 June 2011	<u>—</u>
Carrying amount	
At 30 June 2011 (unaudited)	<u><u>574,730</u></u>

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

	30 June 2011 (Unaudited) <i>HK\$'000</i>	31 December 2010 (Audited) <i>HK\$'000</i>
Supermarket chain operations		
Balance brought forward	—	377,972
Less: disposal	—	(377,972)
Carrying amount carried forward	<u>—</u>	<u>—</u>
Financing services operation		
Balance brought forward	—	—
Additions through acquisition of subsidiaries	<u>574,730</u>	<u>—</u>
Carrying amount		
At 30 June 2011 (unaudited)	<u><u>574,730</u></u>	<u><u>—</u></u>

Impairment tests for cash-generating units containing goodwill

The goodwill arose from acquisition of additional interest in a subsidiary, K.P. Financial Group Limited (“Target”), in June 2011 and has been allocated to Target, a cash generating unit (“CGU”) in financial services, for impairment testing purposes.

The recoverable amount of the CGU is determined from value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rates, growth rates and expected changes to service charges and direct costs during the year. Management estimates the discount rate using pretax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts. Changes in service charges and direct costs are based on past practices and expectations of future changes in the market.

During the period, the Group performed an impairment review for goodwill based on cash flow forecasts derived from the respective most recent financial budget for the next five years approved by management using a discount rate of 14.1% (2010: 9.0%) which reflects the current market assessments of the time value of money and the risks specific to the CGU. The growth rate per annum is approximately 10.0% (2010: 8.0%) in light of the Group’s industry growth forecast. This growth rate does not exceed the average long term growth rate for the relevant industry.

Based on the impairment tests performed, the recoverable amount of the CGU is higher than its carrying amount based on value-in-use calculation. Accordingly, no impairment loss is recognised for the year (2010: Nil).

12. SHORT TERM LOANS RECEIVABLE

The following is an ageing analysis of the Group’s short term loans receivable or advances provided to customers:

	30 June 2011 (Unaudited) HK\$’000	31 December 2010 (Audited) HK\$’000
Within 1 month	40,090	186,209
More than 1 month but less than 3 months	246,122	–
More than 3 months but less than 6 months	26,707	–
More than 6 months	89,191	–
	402,110	186,209

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

The Group has set up a risk management team responsible for the evaluation of customers’ credit rating to ensure that all customers have healthy financial background and adequate repayment abilities. Management has set up the credit limits of the managers of each operation departments. Any further extension of credit beyond these approved limits has to be first approved by credit approval committee and then by the executive directors of the Group. The risk management team are also required to take follow-up action where customers have defaulted on the repayment of loans to banks and on the repayment of advances from the Group. Management considers the receivable that is neither past due nor impaired to be of good credit quality.

13. ACCOUNTS RECEIVABLE & INTERESTS RECEIVABLE

Accounts receivable represent the loan management service income and financing consultancy fee income not yet received during the Reporting Period. All the accounts receivable and interests receivable will be settled according to contract terms and are expected to be recovered within one year. The carrying amount of accounts and interests receivable approximate to their fair values.

14. ACCOUNTS PAYABLE

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

	30 June 2010 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Outstanding balances with ages:		
Due within 1 month or on demand	13,213	20,328
Due after 1 month but within 3 months	27,794	34,037
	41,007	54,365

Note:

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 maturity and measured at amortised cost.

15. BANK BORROWINGS

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

	Group 30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within 1 year or on demand		
Bank loans – secured	1,422	4,650
Bank loans – unsecured	–	21,153
	1,422	25,803
After 1 year but within 5 years		
Bank loans – secured	17,040	16,277
	18,462	42,080

The secured bank borrowings were secured by the Group's investment property with a carrying amount of approximately HK\$75,677,000 (2010: HK\$66,974,000). The fair value of the Group's bank loans as at 30 June 2011 approximated their corresponding carrying amounts.

16. SHARE CAPITAL

	30 June 2011 (Unaudited)		31 December 2010 (Audited)	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised				
Ordinary share of HK\$0.10 each	<u>4,000,000,000</u>	<u>400,000</u>	<u>4,000,000,000</u>	<u>400,000</u>
Issued and fully paid				
At 31 December 2010 and 1 January 2011	1,746,002,336	174,600		
Shares issued under share option scheme	1,000,000	100		
Share issued pursuant to acquisition	<u>1,250,000,000</u>	<u>125,000</u>		
At 30 June 2011	<u>2,997,002,336</u>	<u>299,700</u>		

17. OPERATING LEASE COMMITMENT

(a) As lessor

The Group leases its investment property, shop premises of convenience store 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 five years for shop premises of convenience store chain operation and one to two years for golf club membership. The terms of the leases generally also require the lessees to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

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

	30 June 2010 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within one year	10,157	8,858
In the second to fifth years, inclusive	12,565	14,484
After the fifth year	<u>7,399</u>	<u>10,126</u>
	<u>30,121</u>	<u>33,468</u>

(b) As lessee

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

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within one year	31,065	11,882
In the second to fifth years, inclusive	41,264	15,492
After the fifth year	5,115	10,126
	77,444	37,500

18. RELATED PARTY TRANSACTIONS

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

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

		(Unaudited) For the six months ended 30 June 2011 HK\$'000	2010 HK\$'000
	<i>Note</i>		
Rental expenses to a company controlled by directors	(i)	—	332

Note:

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

(b) Compensation of key management personnel of the Group

	(Unaudited) For the six months ended 30 June 2011 HK\$'000	2010 HK\$'000
Salaries, allowances and other benefits	2,039	1,583
Pension scheme contribution	6	6
	2,045	1,589

19. ACQUISITION OF SUBSIDIARIES

On 27 January 2011, K.P.B. Group Holdings Limited, a wholly-owned subsidiary of the Company, entered into an Acquisition Agreement with the Chairman of the Board, Mr. Cheung Siu Lam, to acquire the entire issued capital of K.P. Financial Group Limited which indirectly has beneficial interests in 70% of the equity interests in Beijing Huifeng Rongjin Credit Finance Company Limited (北京惠豐融金小額貸款有限公司), 100% of the equity interests in Beijing Zhong Jin Tou Management Consultancy Company Limited (北京中金投財務諮詢有限公司) (formerly known as 北京港佳匯通財務諮詢有限公司) and 100% of the equity interests in Beijing Huaxia Xingye Investment Guarantee Company Limited (北京華夏興業投資擔保有限公司) (all together refer to the “Target Group”). Beijing Huifeng Rongjin Credit Finance Company Limited is principally engaged in the provision of small loan services in Miyun county, Beijing, PRC. Beijing Huaxia Xingye Investment Guarantee Company Limited is principally engaged in the provision of loan guarantee services to individuals and corporations.

The acquisition was completed on 21 June 2011 and the acquisition cost of HK\$800,000,000 was satisfied (i) as to HK\$100,000,000 in cash payable within 6 months after the date of completion and (ii) as to HK\$700,000,000 by issuance of 1,250,000,000 shares of the Company to Mr. Cheung Siu Lam (or his nominees) at fair value of HK\$0.56 each, determined by reference to the published closing market price of the shares at the date of acquisition.

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

	<i>HK\$'000</i>
Total consideration – satisfied by	
Cash consideration	100,000
Issue of new shares	700,000
	800,000
Add: Non-controlling interests held 30% equity interest in	
Beijing Huifeng Rongjin Credit Finance Company Limited	18,226
Less: Fair value of identifiable net assets	(243,496)
Goodwill on acquisition	574,730
An analysis of the net assets acquired is as follows:	
Property, plant and equipment	208
Deferred assets	1,104
Accounts receivables	11,652
Prepayment, deposits and other receivables	52,420
Money lending loan receivables	58,404
Loan interest receivables	855
Cash and cash equivalents	145,453
Deferred income	(389)
Accounts payables	(134)
Other payables, deposits and accruals	(8,570)
Tax payables	(17,032)
Contingent liabilities	(475)

The Target Group contributed approximately HK\$5,398,000 to the Group's revenue and approximately HK\$3,642,000 (net of non-controlling interest sharing) to the Group's net profit for the period between the date of acquisition and the date of the statement of financial position.

If the acquisition had occurred on 1 January 2011, the revenue of the Target Group contributed to the revenue of the Group would have been HK\$86,227,000, and profit for the six months ended 30 June 2011 would have been HK\$56,813,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

An analysis of the revenue of the Target Group, if the acquisition had occurred on 1 January 2011 is as follows:

	<i>HK\$</i>
Interest income on provision of short term financing services	4,495
Loan management service income	19,178
Financing consultancy service income	62,469
Loan guarantee service income	85
Total	86,227

20. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the Reporting Period (2010: Nil).

21. 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 22 August 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged principally in the provision of integrated short-term financing services, comprising short-term financing, loan guarantee services and related management and consultancy services and retail business.

BUSINESS REVIEW

After the disposal of its retail business in Shanghai, the Group has further expanded its short term financing business by acquiring the Target Group which provides small loans, corporate guarantee for bank loans and related financing consultancy services to individuals and small-to-medium-sized enterprises (“SMEs”) from the Chairman of the Board, Mr. Cheung Siu Lam (“Mr. Cheung”). As the Target Group’s businesses and the Group’s existing pawn loan business target similar types of customers, namely SMEs and individuals, the directors consider that the acquisition will benefit the Group’s existing short term financing business. For the six months ended 30 June 2011, the unaudited revenue of the Target Group amounted to approximately HK\$86,227,000 and net profit after tax was about HK\$56,813,000. The revenue of the Target Group comprised interest income of approximately HK\$4,495,000, loan management service income of approximately HK\$19,178,000, financing consultancy service income of approximately HK\$62,469,000 and loan guarantee service income of approximately HK\$85,000. The acquisition was completed on 21 June 2011 and the Target Group contributed about HK\$5,398,000 to the Group’s revenue and approximately HK\$3,642,000 (net of non-controlling interest sharing) to the Group’s net profit for the period between the date of acquisition and the date of statement of financial position.

Based on National Bureau of Statistics of China, The People's Republic of China ("PRC") was one of the fastest growing economies in the world over the past decade. The growth of GDP in the PRC is principally as a result of the increase in domestic consumption. In line with the economic growth in the PRC, the private enterprise sector in the PRC has expanded rapidly in recent years and the demand for funding is on an increasing trend. With the rapid expansion of the private enterprise sector in the PRC and the upward trend of loans to SMEs and individuals in the PRC, the Board believes that there will be upside potential in the demand for financing services and results from that business will be prominent.

As for our convenience store business in Beijing, the Group has continued with its outlet expansion plan to about 200 stores by the end of 2011. The Group has endeavoured to enhance its store image to attract more new customers, driving growth in store sales with increased patronage and sale per customer. Although the Group experienced high rental and staff costs, considerable increase in sales has offset such adverse effect. The Group sought to improve gross margins and profitability through various initiatives such as leveraging its economics of scale and launching service programs relating to sales promotion of fast-food, self-owned brands, E-commerce site, bulk purchase and coupons. The Group continuously 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. China's "12th Five-Year Plan" has placed great strategic importance on expanding consumption and transforming the structure of China's economic growth. This will give a long-term impetus to China's retail sector. Although higher minimum wages will increase labor costs, they will also stimulate sales volume and promote the sales of daily consumer goods. The Group will keep on pursuing an expansion strategy to strengthen its leading position in convenience retail business in Beijing city.

FINANCIAL REVIEW

Revenue and Net Profit

During the Reporting Period, the Group's revenue amounted to approximately HK\$138,820,000 (2010: HK\$102,077,000), representing an increase of 36.0%. Net profit after tax attributable to owners of the Company was approximately HK\$5,890,000 (2010: 24,689,000), a decrease of about 76.1% compared with the corresponding figure last year. However, following the completion of acquisition of the Target Group and the overwhelming demand for its short term financing business, the Board believes that financial results of the Group for the 2nd half of the year will be very promising. It is expected that the financial results of the Group for the whole year will be much higher than that of last year.

Retail Business

Currently, the Group has about 180 convenience store outlets in Beijing city. Turnover generated from retail business for the Reporting Period amounted to approximately HK\$118,920,000 (2010: HK\$92,727,000), an increase of 28.3% as compared with the corresponding figure of the last period. Gross profit of retail business amounted to approximately HK\$29,294,000 (2010: HK\$21,200,000), increasing by about 38.2%. Merchandise sales gross margin increased to 24.6%.

Short term Financing and Consultancy Business

The Group aims to provide short term financing solutions to SME customers. The short-term loans offered were secured by tangible personal property of the customers. As at 30 June 2011, the Group had direct advances to customers of approximately HK\$402,110,000.

Revenue generated from financing services includes interest income and consultancy fee income amounting to approximately HK\$19,825,000. An analysis by major category of SME customers is shown as follows:

SME Customers	% of revenue
Property development & construction companies	50
Services companies and retail supplier	40
High technology companies	4
Manufacturing and processing companies	6

Loan Guarantee

The Group also provided loan guarantee services. During the Reporting Period, the Group issued loan guarantee in the aggregate amount of approximately HK\$45,694,000. Revenue generated from loan guarantee services during the Reporting Period amounted to approximately HK\$5,000. Guarantee income is recognized over the life of guarantee contracts. As at 30 June 2011, the deferred income was approximately HK\$1,008,000 which would be recognized in the forthcoming 12 months.

Financial Resources and Capital Structure

The Group maintains a healthy cash position and sufficient capital for business development. As at 30 June 2011, current assets of the Group comprised cash and bank balances of approximately HK\$298,873,000, short-term loan receivable of approximately HK\$402,110,000, accounts and interests receivable of HK\$17,632,000, other receivables, deposits and prepayments of approximately HK\$230,962,000, inventories of approximately HK\$39,220,000 and financial assets at fair value through profit or loss of approximately HK\$12,489,000. Non-current assets mainly comprised goodwill of about HK\$574,730,000, investment property of approximately HK\$75,677,000 and available-for-sale investments of approximately HK\$54,729,000. Current liabilities mainly comprised accounts payable of approximately HK\$41,007,000, deferred income and contingent liabilities of about HK\$1,508,000, other payables, deposits received and accrual of approximately HK\$120,949,000, tax payable of approximately HK\$20,867,000 and short-term bank loans of about HK\$1,422,000.

MATERIAL ACQUISITIONS AND DISPOSALS

On 27 January 2011, K.P.B. Group Holdings Limited, a wholly-owned subsidiary of the Company, entered into an Acquisition Agreement with Mr. Cheung, to acquire the Target Group, and the shareholder's loan at the consideration of HK\$600 million. Pursuant to the Acquisition Agreement, the consideration shall be satisfied as to (i) HK\$500 million by the allotment and issue of 1,250,000,000 shares to Mr. Cheung (or his nominee(s)) at an issue price of HK\$0.40 per share, credit as fully paid, on the completion date, and (ii) the balance of HK\$100 million in cash, either one-off or by such number of Instalments and amount as determined by Mr. Cheung, within six months after the completion date. The acquisition was completed on 21 June 2011. Further details of the acquisition were set out in the Company's circular dated 29 April 2011 to its shareholders in connection with the acquisition.

LIQUIDITY AND GEARING RATIO

The Group maintains a healthy liquidity position. As at 30 June 2011, the current ratio of the Group was 5.4 times. The Group monitors capital on the basis of the gearing ratio, which is calculated as total borrowings divided by total equity. As at 30 June 2011, the gearing ratio was about 0.012.

FAIR VALUE ESTIMATION

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

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2011, the Group had approximately 1,350 employees in Mainland China and Hong Kong. Competitive remuneration packages and performance-based bonuses are structured to commensurate with individual responsibilities, qualifications, experience and performance. The Group also sets up a share option scheme for the purpose of providing incentives to eligible employees. For the Reporting Period, total staff costs were about HK\$22,913,000.

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.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER

Mr. Cheung, the controlling shareholder of the Company and the Chairman of the Board, has executed a share charge of 1,250,000,000 shares of the Company to K.P.B. Group Holdings Limited, a wholly owned subsidiary of the Group such that in the event the audited net profit for the year ended 31 December 2011 of the Target Group has not reached HK\$80 million, the Group has the right to enforce the share charge by having the power to dispose of and deal with the pledged shares in order to realize the money to meet the compensated amount which is 5.5 times of the shortfall under the profit guarantee. Details of the share charge were set out in the Company's circular dated 29 April 2011 to its shareholders in connection with the acquisition.

CORPORATE GOVERNANCE

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

Code Provision A.1.1

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

The Company does not announce its quarterly results and hence not consider the holding of quarterly meetings as necessary.

Code Provision A.2.1

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

On 15 July, 2011, Mr. Cheung resigned as the Chief Executive Officer of the Company in order to comply with code provision A.2.1 regarding segregation of the roles of Chairman and Chief Executive Officer of the Company. Mr. Luo Rui was appointed as the Chief Executive Officer of the Company on the same date.

Code Provision A.5.1

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

There is currently no arrangement in place for providing professional briefings and training programmes to directors. Nevertheless, the directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. The Company would consider to engage external legal and other professional advisers for providing professional briefings and training programmes to directors whenever necessary,

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

AUDIT COMMITTEE

The Audit Committee, which comprises three independent non-executive directors, has reviewed the interim results for six months ended 30 June 2011. The Audit Committee considered that the interim financial report for the Reporting Period is in compliance with the relevant financial reporting standards, requirement on Listing Rules and Laws of Hong Kong, and the Company has made appropriate disclosures thereof. The main duties of the Audit Committee include the following:

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

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

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

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.cfsh.com.hk.

The 2011 Interim Report will be despatched to shareholders and published on both websites in due course.

On behalf of the Board
Cheung Siu Lam
Chairman

Hong Kong, 22 August 2011

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