
K.P.I.
COMPANY LIMITED
STOCK CODE : 0605
2006
annual
report

Contents

Corporate Information

DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

Mr Wang Jian Sheng
Mr Chan Chun Keung
Mr Yue Ming Wai, Bonaventure

QUALIFIED ACCOUNTANT

Mr Chung Chin Keung FCCA, FCPA

COMPANY SECRETARY

Mr Chung Chin Keung FCCA, FCPA

AUDITORS

CCIF CPA Limited

AUDIT COMMITTEE

Mr Yue Ming Wai, Bonaventure *(Chairman)*
Mr Wang Jian Sheng
Mr Chan Chun Keung

PRINCIPAL BANKER

Bank of China
Bank of Communications
China Merchants Bank

SHARE REGISTRARS

Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

Suite 5606
56th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

STOCK CODE: 605

WEBSITE

www.kpi.com.hk

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), I am pleased to present to the shareholders the annual report of K.P.I. Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2006.

This year marks an important year for the Group and our intention to becoming an important player within the retail industry in PRC is gradually becoming a reality. The Group has gained a strong foothold and positioned itself one of the leading retailers in hypermarket business in Shanghai and convenience stores business in Beijing. Backed by solid financial fundamentals and support by our business partners, we are in a position to pursue new opportunities and to acquire new businesses to further enhance our shareholders' value. It is the intention of the Group to further acquire one or two famous brand name food production and distribution enterprises in Beijing. The proposed acquisition would be completed in 2007, though no material terms in relation to the proposed acquisition have been agreed upon.

Professional Management

The Group continues to pursue new opportunities to reward our shareholders for their sincere support.

Chairman's Statement

Our outlook for the year 2007 and onwards is optimistic and we believe our prudent expansion strategies over the years are on track and meticulously carried out. In the future, we will continue our efforts to improve profitability, and capture invaluable market opportunities through acquisition of related business with growth potential or expansion of the Group's existing operations. We are confident that the Group will sustain continuous business growth and enhance operational efficiency of each business.

GMS's outlet

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our supporters, strategic partners, shareholders and employees for their dedication to the Group's success during the year.

Cheung Siu Lam
Chairman and Chief Executive Officer

Hong Kong, 23 April 2007

Corporate Governance Report

The board of directors ("Board") of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2006.

CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the important role of its Board in providing effective leadership and direction to Company business, and ensuring transparency and accountability of Company operations.

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 set out in the CG Code, save for the deviations from code provisions A.2.1, B.1.1 and E.1.2, which are explained in the relevant paragraphs in this Report.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the statutory and CG Code and align with the latest developments.

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

Every director shall ensure that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

Board Composition

The Board currently comprises six members, consisting of three executive directors and three independent non-executive directors.

The list of all directors is set out under "Corporate Information" which shall specify the posts e.g. Chairman and Vice Chairman, and chairman and member of committee, held by each director on page 2 and all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The relationships among the members of the Board are disclosed under "Biographical Details of Directors and Senior Management" on page 16.

During the year ended 31 December 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

Chairman and Chief Executive Officer

Deviation from Code Provision A.2.1 (& reasons)

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 is the 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.

Appointment and Re-election of Directors

Each of the independent non-executive directors of the Company is engaged on a service contract for a term of one year. The appointment may be terminated by not less than two months' written notice.

In accordance with the Company's Articles of Association which were amended by a special resolution at the annual general meeting held on 23 May 2006 for the purpose of compliance with the CG Code, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

In accordance with the Company's Articles of Association, Mr Chan Yuk Ming and Mr Wang Jian Sheng shall retire by rotation and being eligible, offer themselves for re-election at the 2007 annual general meeting. Mr Yue Ming Wai, Bonaventure, having been appointed as independent non-executive director of the Company during the year, shall retire and decides not to offer himself for re-election at the 2007 annual general meeting due to his personal reasons.

The Board recommended the re-appointment of the directors standing for re-election at the 2007 annual general meeting of the Company.

The Company's circular dated 30 April 2007 contains detailed information of the directors standing for re-election.

Training for Directors

There is currently no arrangement in place for providing professional briefings and training programmes to directors. 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.

Board Meetings

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Financial Officer, Qualified Accountant and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

The Company's Articles of Association contains provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

Directors' Attendance Records

The Board met two times during the year ended 31 December 2006 for approving the final results for the year ended 31 December 2005 and interim results for the period ended 30 June 2006.

The attendance records of each director at the Board meetings during the year ended 31 December 2006 are set out below:

Name of Directors	**Attendance/ Number of Meetings**
Mr Cheung Siu Lam	6/9
Mr Chan Yuk Ming	3/9
Madam Lo Wan	9/9
Mr Yu Hei Wung, Raymond	2/9
Mr Wang Jian Sheng	2/9
Mr Chan Chun Keung	2/9
Mr Tang Tse Yee, Kennedy *(Note 1)*	1/4
Mr Yue Ming Wai, Bonaventure *(Note 2)*	2/5

Notes:

1. Mr Tang Tse Yee, Kennedy resigned on 1 June 2006. There were four Board meetings held from 1 January 2006 to 31 May 2006.

2. Mr Yue Ming Wai, Bonaventure was appointed on 1 June 2006. There were five Board meetings held from 1 June 2006 to 31 December 2006.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2006.

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.

DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major Company matters, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has established the Audit Committee with defined written terms of reference which are posted on the Company's website and are available to shareholders upon request.

The Board also has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal procedure for formulating policies on remuneration and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2006 are set out on page 57 in note 9 to the financial statements.

Remuneration Committee

Deviation from Code Provision B.1.1 (& reasons)

Code Provision B.1.1 stipulates that the Company should establish a remuneration committee with specific written terms of reference.

The Company has not established a remuneration committee as the Company believes that the Board has extensive experience in the industry and is fully qualified to determine the remuneration packages of employees of the Company including directors and senior management.

During the year ended 31 December 2006, the Board as a whole is responsible for making recommendations on and approving the remuneration policy and structure and remuneration packages of the directors and the senior management. The Board is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

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

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Internal Controls

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. To enable the Company to discharge its annual review responsibilities pursuant to code provision C.2.1 of the CG Code, the Company engaged BMI Appraisals Limited to conduct an independent review on its system of internal controls on several areas of activities of the Company and its subsidiaries for the year ended 31 December 2006.

Recommendations on areas of improvement were included in a report prepared by BMI Appraisals Limited and the report was reviewed by the Audit Committee at the Audit Committee meeting. The Management shall consider the recommendations from time to time in order to enhance the internal control policies, procedures and practices.

The Directors acknowledge their responsibility for the Group's internal control systems and confirm they have reviewed and are satisfied as to its effectiveness in managing risks.

Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Mr Yue Ming Wai, Bonaventure (Chairman), Mr Wang Jian Sheng and Mr Chan Chun Keung (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

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

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

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

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

During the year under review, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 December 2006, the financial reporting and compliance procedures. The Audit Committee has also reviewed the internal control report prepared by BMI Appraisals Limited on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

There is no different view taken by the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Audit Committee held three meetings during the year ended 31 December 2006 and the attendance records are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr Tang Tse Yee, Kennedy *(Note 1)*	2/2
Mr Wang Jian Sheng	1/3
Mr Chan Chun Keung	2/3
Mr Yue Ming Wai, Bonaventure *(Note 2)*	1/1

Notes:

1. Mr Tang Tse Yee, Kennedy resigned on 1 June 2006. There were two Audit Committee meetings held from 1 January 2006 to 31 May 2006.

2. Mr Yue Ming Wai, Bonaventure was appointed on 1 June 2006. There was one Audit Committee meeting held from 1 June 2006 to 31 December 2006.

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 26.

During the year under review, the remuneration paid to the Company's auditors, is set out below:

Category of services	Fee paid/payable *HK$*
Audit service	1,150,000
Non-audit service	
– Consultation on major transaction	
– Acquisition of asset	230,000
– Consultation on major transaction	
– Loan agreement	40,000
Total	1,420,000

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairman of the Audit Committee or, in their absence, other members of the Audit Committee, are available to answer questions at the shareholders' meetings.

To promote effective communication, the Company maintains a website at www.kpi.com.hk, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted. Investors may write directly to the Company at its registered office or via email to www.kpi.com.hk for any inquiries.

Deviation from Code Provision E.1.2 (& reasons)

Code provision E.1.2 stipulates that the Chairman should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committee (as appropriate) or in their absence, another member of such committee or his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent Board committee should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

Mr Cheung Siu Lam was unable to attend the 2006 annual general meeting due to some personal reasons, but one of the executive directors has been delegated to attend and answer questions on his behalf at the annual general meeting. He will use his endeavours to attend all future shareholders' meetings of the Company.

SHAREHOLDER RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings at which voting is taken on a poll are contained in the Company's Articles of Association. Details of such rights to demand a poll were included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the websites of the Company and of the Stock Exchange.

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

Hong Kong, 23 April 2007

Management Discussion and Analysis

GROUP OVERVIEW

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

During the year under review, the Group recorded turnover and gross profit of approximately HK$431,037,000 and HK$42,307,000 respectively. Profit for the year attributable to equity holders of the Company was HK$2,316,000. Earnings per share was HK0.23 cents (2005: loss per share was HK 2.29 cents). Selling and distribution expenses and general and administrative expenses for the year represented 6.1% and 19.2% of turnover respectively, as compared to 4.8% and 18.5% of last year.

RETAIL BUSINESS

On 4 July 2006, K.P.B. Marketing Limited, the wholly-owned subsidiary of the Company, entered into a sale and purchase agreement for the acquisition of the remaining 49% equity interest in K.P.I. (BVI) Retail Management Company Limited ("KPI Retail Management") at a consideration of HK$93,000,000. The consideration was satisfied by the issuance of a convertible note by the Company. KPI Retail Management is the registered owner of the entire registered capital of 海口港佳貿易有限公司, a company established in the PRC, which in turn is the registered owner of 40% of the registered capital of Hualian GMS Shopping Center Co., Ltd ("GMS"). GMS is principally engaged in large-scale chain hypermarkets in Shanghai and Northeastern PRC. Since its establishment in December 1998, GMS has developed rapidly and earned prestige brand recognition among people in Shanghai.

The acquisition of KPI Retail Management signified the Group's further expansion into the retail business in the PRC. It is the intention of the Group to inject more capital and resources into the retailing business in the PRC to capture the continual growth of the PRC economy. The Group has appointed four directors to sit on the GMS board, the chairman of which is the Vice Chairman of the Group.

Through the significant influence of the Group's representation on the board of GMS, the operational efficiency and profitability of GMS will be further improved.

Progress on the expansion of GMS chain outlets was satisfactory in the year under review. As at 31 December 2006, GMS had about 19 stores, with total business area exceeding 200,000m^2. Taking Shanghai as base, GMS radiated to Jiangsu, Zhejiang and Anhui, with sales reaching RMB1,457 million and employees increasing to over 5,000 in 2006. The Group believes it was a right decision to close down several poorly performed shops of GMS in 2005, which were mainly located in northeastern PRC. Profit of GMS has then been picking up gradually and continuing on an upward trend. The Group has demonstrated its ability to turnaround the performance of a sizable retail chain operator. Turnover of GMS for the year was approximately RMB1,456,980,000, a decrease of approximately 9.6% as compared with the corresponding figure last year. The reduction in turnover was mainly due to the decrease in number of outlets. During the year, the Company shared turnover and net profit of GMS were

Mr Tao Ye, the General Manager of the Group

approximately HK$392,413,000 and HK$463,000 respectively. During the year, the layout of some outlets was refined and consumers were provided with merchandise a wider range to more fully satisfy their requirements. To improve stock turnover, regular reviews on inventory level were performed and various marketing campaigns were launched.

Although the Group believes that the competition in the PRC retail business is still intense, the overall purchasing power of general consumers is growing rapidly. Chain retailers are now competing on differentiation of customers, reduction in operation cost, brand loyalty, optimization of product mix, and upgrade of management and supply chain system. In the long term, the overall operating efficiency of GMS will improve considerably and become a significant growth driver to the Group's turnover and net profit.

In Beijing, our convenience stores project has maintained steady growth. To adopt a prudent expansion approach, the selection of outlet location concentrated on places with high pedestrian flow. Poorly performed stores were closed down and efforts were made to constantly adjust product mix so as to better suit customer preferences. During the year, gross margin improved and the number of outlets reached 115. Looking ahead, the Group believes that the retail business in Beijing still has enormous growth potential and there will be significant enhancement in the profit margins of the stores. 2008 Olympic Games will further stimulate economic development of Beijing city and provide an added advantage to retailing business.

INVESTMENT BUSINESS

Due to the impressive rally in global equity markets, the Group's investment business performed well during the year under review. Profit on change in fair value, dividend income and disposal of financial assets amounted to approximately HK$3,461,000 (2005 : HK$2,436,000). Investment portfolio comprised listed shares, high yield equity linked notes, bonds and financial derivatives.

On 31 March 2006, K.P.B. Marketing Limited, a wholly-owned subsidiary of the Company, entered into a loan agreement with an independent third party, in relation to

a loan facility of up to RMB60,000,000 of annual interest 15%. This is a rare opportunity for the Group to generate higher return on capital using excess funds. Interest income earned from the loan amounted to approximately HK$5,703,000. Except for this transaction, the Group does not have any intention to develop any money lending business in the future. It is expected the loan would be repaid in the second quarter of 2007.

FUTURE OUTLOOK AND PROSPECTS

There are lucrative opportunities arising from the booming economy in the PRC and its escalating growth in retail business. Leveraging on experience and wisdom from its many years of involvement in the PRC business, the Group has laid down a solid foundation to emerge as one of the leading retail operators in the PRC.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group had non-current assets of approximately HK$133,668,000. The non-current assets were mainly comprised plant & equipment of approximately HK$38,314,000, goodwill of approximately HK$13,493,000, intangible assets of approximately HK$58,016,000. Current ratio as defined as current assets over current liabilities was 1.5. As at 31 December 2006, the Group had current assets of approximately HK$421,517,000. Current assets were mainly comprised cash and bank balances amounted to approximately HK$134,477,000, inventory of approximately HK$57,992,000, other receivables, deposits and prepayments amounted to approximately HK$130,082,000 and loan receivables amounted to approximately HK$55,956,000. As at 31 December 2006, the Group had current liabilities of approximately HK$273,282,000. Current liabilities were mainly comprised trade payables, other payables and accrual of approximately HK$197,197,000 and bank borrowings of approximately HK$76,000,000. The convertible note issued is split into liability and equity components at initial recognition. The liability component is subsequently carried at amortized cost. The equity component is recognized in other reserve until the note is converted or redeemed. Non-current liabilities were mainly comprised the liability component of convertible note of amortized value of approximately HK$91,521,000. Gearing ratio was 88.0%, which is calculated on the basis of total borrowings over total equity. As at 31 December 2006, all bank borrowings of the Group were denominated in Renminbi at fixed interest rate basis. The Board is of the opinion that the Group is not subject to any significant interest rate risk. A significant portion of sales and purchases of the Group were either denominated in Hong Kong dollars or Renminbi. Despite the appreciation of Renminbi during 2006, the impact on the Group's operation was minimal. In such, no hedging has been carried out by the Group. The Group will continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

GMS's outlet

PLEDGE OF ASSETS

Approximately HK$23,400,000 bank deposits and a property with fair value of HK$13,200,000 were pledged to secure general banking facilities granted to the Group.

HUMAN RESOURCES MANAGEMENT

As of 31 December 2006, the Group, excluding associated companies and jointly controlled entity, had a total of 16 employee (2005:19). The number of employees of GMS was about 5,000. Total staff costs (including directors' remuneration) for the year were approximately HK$26,575,000. Competitive remuneration packages are structured to commensurate with individual responsibilities, job duties, experience and performance, which are regularly reviewed by the management. The Group also offers other benefits such as allowances and discretionary bonus, provident funds, medical insurances and share options.

MATERIAL ACQUISITION AND DISPOSALS

For the year, a wholly-owned subsidiary of the Company, K.P.B. Marketing Limited entered a sale and purchase agreement for the acquisition of the remaining 49% equity interest in KPI Retail Management at a consideration of HK$93,000,000. KPI Retail Management was indirectly interested in 40% equity interest of GMS, a company established in PRC and is principally engaged in retailing business. Further details of the acquisition are set out in the Company's circular dated 11 August 2006 to its shareholders in connection with the acquisition.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2006.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

MR CHEUNG SIU LAM, aged 48, is a co-founder and Chairman of the Group. Before establishing the Group, Mr Cheung worked for Beijing Machinery Import & Export Company for many years. Mr Cheung has extensive experience in trading and retailing business in PRC. Mr Cheung is responsible for the overall strategic planning and corporate development of the Group. Mr Cheung is the spouse of Madam Lo Wan.

MR CHAN YUK MING, aged 48, is the Vice-Chairman of the Group. Mr Chan graduated from the Hangzhou Institute of Business, following which he worked in the accounting department of the Beijing Commercial Bureau, under the supervision of the Ministry of Commerce. He joined the Group in 1985 and is responsible for business development of the Group. He is the chairman of the board of Hua Lian GMS Shopping Center Company Limited.

MADAM LO WAN, aged 45, joined the Group in 1989. Prior to joining the Group, she worked for a PRC trading Company. Madam Lo is responsible for the investment activities of the Group. Madam Lo is the spouse of Mr Cheung Siu Lam, the Chairman of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR WANG JIAN SHENG, aged 54, graduated from Luoyang Industrial Institution with a degree in engineering. He has been involved in industrial businesses for more than 21 years and has worked in the Project Department of China Everbright Industrial Company for four years. Mr Wang joined the Group in 1996. Mr Wang is also a member of the Audit Committee of the Company. Mr Wang does not have any relationship with any other Directors, senior management, substantial shareholders, or controlling shareholders of the Company.

MR CHAN CHUN KEUNG, aged 56, joined the Group in November, 2000. Mr Chan is the Chairman of Everbest Century Holdings Limited, a listed Company in Hong Kong. Mr Chan has extensive experience in trading and investment in the PRC and is currently a committee member of the Chinese People's Political Consultative Conference of Fujian Province, the PRC, the Vice-Chairman of the Fujian Economic Development Association in Hong Kong and a committee member of the Foreign Investment Enterprises Association in the PRC. Mr Chan is also a member of the Audit Committee of the Company. Mr Chan does not have any relationship with any other Directors, senior management, substantial shareholders, or controlling shareholders of the Company.

MR YUE MING WAI, BONAVENTURE, aged 39, joined the Group in June 2006. Mr Yue is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Hong Kong Institute of Certified Public Accountants. He is also an associate member of the Institute of Chartered Accountants in England and Wales. He is currently a company secretary and a chief financial officer of a private manufacturing company. Mr Yue has extensive experience in business advisory, corporate finance and merger and acquisitions. Mr Yue is also the chairman of the Audit Committee of the Company. Mr Yue does not have any relationship with any other Directors, senior management, substantial shareholders, or controlling shareholders of the Company.

SENIOR MANAGEMENT

MR TAO YE, aged 34, is the general manager of the Group. He joined the Group in January, 2004. Mr Tao graduated in Peking University in 1995 and obtained a bachelor degree in Science and a certificate in Law. Mr Tao further obtained a master degree in Science and Business Administration from Peking University in 1998 and 2001 respectively. Prior to joining the Group, Mr Tao was the director of strategic planning of Beijing K.P.I. Hi-24 Convenience Stores Company Limited. Mr Tao is also a director of Hua Lian GMS Shopping Center Company Limited. He has extensive experience in strategic planning, business administration and corporate management.

MADAM CHIN TUNG MUI, aged 45, graduated from Beijing Institute of Business with a degree in economics. Madam Chin also holds a master degree in Business Administration from the Open University of Hong Kong. She joined the Group in 1990 and is the Deputy General Manager of K.P.A. Company Limited. Madam Chin is responsible for business development of the Group.

MR CHUNG CHIN KEUNG, aged 39, is the company secretary and financial controller of the Group and is responsible for the overall financial and accounting affairs. He joined the Group in October, 2004. Mr Chung holds a bachelor degree of Business Administration from the Hong Kong Baptist University and a master degree in Business Administration from Manchester Business School. He has 16 years experience in finance, accounting and management. Before joining the Group, Mr Chung worked for various listed companies in Hong Kong and overseas and was a company secretary for a listed company in Hong Kong. Mr Chung is a fellow member of The Association of Chartered Certified Accountants, a fellow member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Institute of Financial Consultants.

The directors present herewith their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. The principal activities and other particulars of the subsidiaries, associates and jointly controlled entities are set out in notes 19, 20 and 21 to the financial statements respectively.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2006 is set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 30. The directors do not recommend the payment of any dividend in this year (2005: nil).

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 35 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT, LAND LEASE PREMIUM AND INVESTMENT PROPERTY

Details of movements in property, plant and equipment, land lease premium of the Company and the Group and the investment property of the Group are set out in notes 14 to 16 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and share options of the Company during the year, together with the reasons therefore, are set out in notes 33 and 34 to the financial statements, respectively.

DISTRIBUTABLE RESERVES

Profit/(loss) for the year attributable to equity holders of the Company of HK$2,316,000 (2005 (restated): (HK$23,251,000)) has been transferred to reserves. At 31 December 2006, the Company has no reserve available for distribution as calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

The Group is principally involved in retail business. The five largest customers and the five largest suppliers of the Group accounted for less than 30% of the Group's turnover and purchases respectively during the year.

As far as the directors are aware, neither the directors, their associates nor any shareholder of the Company (which, to the best of knowledge of the directors, owns more than 5% of the Company's share capital) had any beneficial interest in these major customers and suppliers.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive directors

Cheung Siu Lam *(Chairman)*
Chan Yuk Ming *(Vice-chairman)*
Lo Wan

Non-executive director

Yu Hei Wung, Raymond *(resigned on 7 March 2007)*

Independent non-executive directors

Wang Jian Sheng
Chan Chun Keung
Tang Tse Yee, Kennedy *(resigned on 1 June 2006)*
Yue Ming Wai, Bonaventure *(appointed on 1 June 2006)*

In accordance with article 105(A) of the Company's Articles of Association, Mr Chan Yuk Ming and Mr Wang Jian Sheng will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. In accordance with article 96 of the Company's Articles of Association, Mr Yue Ming Wai, Bonaventure, shall retire but shall not offer himself for re-election at the forthcoming annual general meeting. The directors of the Company, including the independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

DIRECTORS' SERVICE CONTRACTS

The independent non-executive director, Mr Yue Ming Wai, Bonaventure, has entered into a service contract with the Company for one year commencing on 1 June 2006 and is subject to retirement by rotation and re-election at the general meeting of the Company in accordance with the Articles of Association of the Company.

Other independent non-executive directors, namely Mr Wang Jian Sheng and Mr Chan Chun Keung entered into service contracts with the Company respectively for a term of one year commencing on 9 September 2005 and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company.

Either party may terminate the contract by giving not less than two months' notice in writing or payment of remuneration in lieu of such notice or the unexpired part of such period. Their remuneration is determined by the board of directors on the anniversary of the dates of their appointments.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 December 2006, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Companies ("Model Code"), were as follows:

Long positions in shares and underlying shares of the Company

Name of Director	Capacity	Number of ordinary shares held	Underlying shares interested *(Note 1)*	Aggregate long position in shares and underlying shares to issued share capital
Cheung Siu Lam	Beneficial owner of 459,044,240 ordinary shares and 1,000,000 underlying shares, family interest of 47,882,000 ordinary shares and 1,000,000 underlying shares *(Note 2)* and interest in controlled corporation of 86,400,000 ordinary shares *(Note 3)*	593,326,240	2,000,000	58.60%
Lo Wan	Beneficial owner of 47,882,000 ordinary shares and 1,000,000 underlying shares, family interest of 545,444,240 ordinary shares and 1,000,000 underlying shares *(Note 4)*	593,326,240	2,000,000	58.60%
Chan Yuk Ming	Beneficial owner	–	10,000,000	0.98%
Yu Hei Wung, Raymond	Beneficial owner	–	7,000,000	0.68%

Notes:

1. The number of shares represents the shares in which the directors are deemed to be interested as a result of holding share options.

2. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 47,882,000 ordinary shares and 1,000,000 underlying shares held by Lo Wan.

3. Arbalice Holdings Limited is beneficially owned as to 60% by Cheung Siu Lam, 27.5% by Lo Wan and 12.5% by Zhang Wei. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 86,400,000 shares held by Arbalice Holdings Limited.

4. By virtue of the SFO, Lo Wan is deemed to be interested in 545,444,240 ordinary shares including 459,044,240 shares held by Cheung Siu Lam as a beneficial owner and 86,400,000 shares held by Cheung Siu Lam through his interest in Arbalice Holdings Limited and 1,000,000 underlying shares held by Cheung Siu Lam.

Save as disclosed above, none of the Directors, chief executives or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations were recorded in the register required to be kept under Section 352 of Part XV of the SFO as at 31 December 2006.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the headings "Directors' interests in share capital" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

INTERESTS IN SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the following companies and person were interested in more than 5% of the issued share capital of the Company according to the register kept by the Company under Section 336 of Part XV of the SFO:

Long positions in shares and underlying shares of the Company

Name	Capacity	Number of ordinary shares held	Underlying shares interested	Aggregate long position in shares and underlying shares to issued share capital
Cheung Siu Lam	Beneficial owner of 459,044,240 ordinary shares and 1,000,000 underlying shares, family interest of 47,882,000 ordinary shares and 1,000,000 underlying shares and interest in controlled corporation of 86,400,000 ordinary shares	593,326,240	2,000,000	58.60%
Lo Wan	Beneficial owner of 47,882,000 ordinary shares and 1,000,000 underlying shares, family interest of 545,444,240 ordinary shares and 1,000,000 underlying shares	593,326,240	2,000,000	58.60%
Arbalice Holdings Limited (Note)	Beneficial owner	86,400,000	–	8.50%
ARC Capital Holdings Limited	Beneficial owner	–	290,625,000	28.60%

Note: The above interest in the name of Arbalice Holdings Limited was also disclosed as interests of Cheung Siu Lam in the sections of "Directors' interests in share capital" and "Interests in substantial shareholders".

Save as disclosed above, no person had registered an interest or a short position in the shares and underlying shares or debentures of the Company that was required to be recorded under Section 336 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company adopted a new share option scheme on 7 June 2004 (the "New Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

A summary of the New Scheme of the Company is as follows:

Purpose	To provide incentives and rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest (the "Invested Entity").
Participants	(i) any employee (whether full-time or part-time), executive directors, non-executive directors and independent non-executive directors of the Company, any of its subsidiaries or any Invested Entity; (ii) any supplier of goods or services to any member of the Group or any Invested Entity, any customer of the Group or any Invested Entity; any person or entity that provides technical, financial and legal support to the Group or any Invested Entity; and (iii) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.
Total number of ordinary shares available for issue under the New Scheme and the percentage of the issued share capital that it represents as at the date of the annual report	69,587,733 ordinary shares and 6.85% of the existing issued share capital.
Maximum entitlement of each participant	Where any grant or further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such grant or further grant representing in aggregate over 1% of the total number of shares in issue, such grant or further grant must be separately approved by the shareholders in a general meeting.

Where any grant or further grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including exercised, cancelled and outstanding options) to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of the relevant class of shares in issue; and

(b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000,

such grant or further grant of options must be approved by the shareholders in a general meeting.

Period within which the securities must be taken up under an option	An option may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall end in any event not later than 10 years from the date of offer of the grant of options subject to the provisions for early termination set out in the New Scheme.
Minimum period for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.
Amount payable on acceptance of the option and the period within which such payment must be made	The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1.00 being payable by the grantee.
Basis of determining the exercise price	Determined by the directors but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant of options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant of options; and (iii) the nominal value of the Company's shares.
The remaining life of the New Scheme	The New Scheme remains in force until 6 June 2014.

During the period under review, no share options were granted. Details of the share options granted under the New Scheme are as follows:

As at 31 December 2006, the executive directors, non-executive directors and employees of the Group have the following interests under the New Scheme.

Director	Date of offer	Exercise price	Outstanding at 1.1.2006	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31.12.2006	Exercise period	Closing price of the securities immediately before the date on which the options were offered
Cheung Siu Lam	02.02.05	0.138	1,000,000	–	–	–	1,000,000	02.02.05 – 06.06.14	0.131
Lo Wan	02.02.05	0.138	1,000,000	–	–	–	1,000,000	02.02.05 – 06.06.14	0.131
Chan Yuk Ming	02.02.05	0.138	10,000,000	–	–	–	10,000,000	02.02.05 – 06.06.14	0.131
Yu Hei Wung, Raymond	02.02.05	0.138	7,000,000	–	–	–	7,000,000	02.02.05 – 06.06.14	0.131
Employees in aggregate	10.01.05	0.126	48,500,000	–	–	–	48,500,000	10.01.05 – 06.06.14	0.126
	01.09.05	0.156	32,000,000	–	–	–	32,000,000	01.09.05 – 06.06-14	0.156

ADVANCES TO ENTITIES

In accordance with Rules 13.13 and 13.20 of the Listing Rules, the details of advances provided by the Group to entities, which individually exceeded 8% of the Company's market capitalization of approximately HK$127.6 million (based on the average closing price of the Company's shares as stated on the Stock Exchange for the five business days immediately preceding 31 December 2006 and 1,015,877,336 shares of the Company in issue as at 31 December 2006) were as follows:

On 31 March 2006, K.P.B. Marketing Limited, a wholly-owned subsidiary of the Company, entered into a loan agreement with Mr Zhang Qizhong, an independent third party, in relation to a loan facility of RMB60 million provided to Mr Zhang for his general working capital.

Loan facility due from an independent third party

Name	Outstanding amount (principal plus interest accrued) *HK$*
Mr Zhang Qizhong	61,659,324

The maturity date of the loan facility is one year from the date of the loan agreement. The interest rate applicable to the facility is fifteen percent (15%) per annum.

On 28 April 2006, K.P.B Marketing Limited, a wholly-owned subsidiary of the Group, acquired 51% equity interest of KPICR. As a result of the acquisition, KPICR becomes a non wholly-owned subsidiary of the Group. KPICR has loan receivables from a convenience store operator in Beijing.

Loan receivables due from a convenience store operator

Name	**Outstanding amount** *HK$*
Beijing K.P.I. Hi-24 Covenience Stores Co., Ltd.	46,515,856

The loan receivables are unsecured, interest-free and have no fixed terms of repayment.

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

The Company has not redeemed any of its listed securities during the year ended 31 December 2006. Neither the Company nor any of its subsidiaries have purchased, sold any of the Company's listed securities during the year ended 31 December 2006.

RETIREMENT SCHEMES

The Group also operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, and participates in various defined contribution retirement plans organised by the relevant authorities for its employees in the PRC.

CORPORATE GOVERNANCE

Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the directors, the directors confirm that the Company has maintained the amount of public float as required under the Listing Rules during the year.

AUDITORS

The financial statements have been audited by CCIF CPA Limited, Certified Public Accountants. A resolution for their re-appointment as the Company's auditors for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Cheung Siu Lam
Chairman and Chief Executive Officer

Hong Kong, 23 April 2007

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF K. P. I. COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of K.P.I. Company Limited (the "Company") set out on pages 27 to 81, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 23 April 2007

Kwok Cheuk Yuen
Practising Certificate Number P02412

Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000 (restated)
Turnover	5	**431,037**	403,815
Cost of sales		**(388,730)**	(369,525)
Gross profit		**42,307**	34,290
Other revenue	5	**74,046**	45,188
Recognition of negative goodwill on acquisition	36(a)	**10,121**	–
Selling and distribution expenses		**(26,253)**	(19,553)
Administrative expenses		**(82,802)**	(74,584)
Other operating expenses		**(1,916)**	(2,017)
Changes in fair value on investment property		**700**	1,000
Loss on disposal of jointly controlled entities		**(10,121)**	(1,776)
Profit/(loss) from operations	7	**6,082**	(17,452)
Finance costs	8	**(5,457)**	(1,829)
Non-operating income		**2,013**	1,864
Non-operating expenses		**(2,714)**	(5,983)
Loss before taxation		**(76)**	(23,400)
Income tax	10(a)	**2,391**	149
Profit/(loss) for the year		**2,315**	(23,251)
Attributable to:			
Equity holders of the Company		**2,316**	(23,251)
Minority interest		**(1)**	–
		2,315	(23,251)
Dividend	12	**–**	–
Earnings/(loss) per share	13		
– Basic		**HK$0.0023**	(HK$0.0229)
– Diluted		**HK$0.0022**	(HK$0.0228)

The notes on pages 34 to 81 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2006

	Note	**2006** HK$'000	2005 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	14	**38,314**	25,790
Land lease premium	15	**2,071**	2,115
Investment property	16	**13,200**	12,500
Intangible assets	17	**58,016**	–
Construction in progress	18	**–**	41
Interests in associates	20	**2,112**	1,077
Goodwill	22	**13,493**	–
Amount due from a joint venture partner	23	**2,928**	2,389
Available-for-sale investments	24	**3,534**	3,534
		133,668	47,446
Current assets			
Financial assets at fair value through profit or loss	25	**13,907**	16,445
Inventories	26	**57,992**	27,505
Other receivables, deposits and prepayments		**130,082**	72,089
Loan and interest receivables		**61,659**	–
Pledged time deposits	28	**23,400**	37,900
Cash and cash equivalents	28	**134,477**	111,792
		421,517	265,731
Current liabilities			
Tax payable	10(b)	**85**	2,369
Trade payables	29	**142,136**	83,556
Other payables and accruals		**55,061**	29,056
Short term bank loans – unsecured	30	**76,000**	24,519
		273,282	139,500
Net current assets		**148,235**	126,231
Total assets less current liabilities		**281,903**	173,677
Non-current liabilities			
Convertible note	31	**(91,521)**	–
NET ASSETS		**190,382**	173,677

Consolidated Balance Sheet

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000 (restated)
Capital and reserves			
Share capital	33	**101,588**	101,588
Reserves	35	**79,071**	72,089
Total equity attributable to equity holders of the Company		**180,659**	173,677
Minority interest		**9,723**	–
TOTAL EQUITY		**190,382**	173,677

Approved and authorised for issue by the board of directors on 23 April 2007.

On behalf of the board

Cheung Siu Lam
Director

Chan Yuk Ming
Director

The notes on pages 34 to 81 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	14	**122**	384
Interests in subsidiaries	19	**13,799**	13,799
		13,921	14,183
Current assets			
Other receivables, deposits and prepayments		**1,061**	4,616
Amounts due from subsidiaries	27	**188,536**	54,627
Pledged time deposits	28	**23,400**	37,900
Cash and cash equivalents	28	**15,403**	46,716
		228,400	143,859
Current liabilities			
Other payables and accruals		**210**	189
Amounts due to subsidiaries	27	**4,193**	9,195
		4,403	9,384
Net current assets		**223,997**	134,475
Total assets less current liabilities		**237,918**	148,658
Non-current liabilities			
Convertible note	31	**(91,521)**	–
NET ASSETS		**146,397**	148,658
Capital and reserves			
Share capital	33	**101,588**	101,588
Reserves	35	**44,809**	47,070
TOTAL EQUITY		**146,397**	148,658

Approved and authorised for issue by the board of directors on 23 April 2007.

On behalf of the board

Cheung Siu Lam
Director

Chan Yuk Ming
Director

The notes on pages 34 to 81 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Share capital	Share premium	Capital reserve	Share-based compensation reserve	Statutory public welfare reserve	Exchange fluctuation reserve	Convertible note reserve	Statutory surplus reserve	Accumulated losses	Attributable to equity holders of the Company	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005												
– as previously reported	101,588	106,879	30,652	–	173	2,613	–	205	(49,455)	192,655	–	192,655
– effect of change in accounting policies under HKAS 17	–	–	–	–	–	–	–	–	(261)	(261)	–	(261)
– opening adjustment for the adoption of HKFRS 3	–	–	(30,652)	–	–	–	–	–	30,652	–	–	–
– as restated	101,588	106,879	–	–	173	2,613	–	205	(19,064)	192,394	–	192,394
Exchange adjustment	–	–	–	–	–	75	–	–	–	75	–	75
Employee share option benefits	–	–	–	4,459	–	–	–	–	–	4,459	–	4,459
Loss for the year	–	–	–	–	–	–	–	–	(23,251)	(23,251)	–	(23,251)
At 31 December 2005	101,588	106,879	–	4,459	173	2,688	–	205	(42,315)	173,677	–	173,677
At 1 January 2006	101,588	106,879	–	4,459	173	2,688	–	205	(42,315)	173,677	–	173,677
Exchange adjustment	–	–	–	–	–	691	–	–	–	691	–	691
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	9,724	9,724
Recognition of equity component of convertible note	–	–	–	–	–	–	3,975	–	–	3,975	–	3,975
Profit for the year	–	–	–	–	–	–	–	–	2,316	2,316	(1)	2,315
At 31 December 2006	**101,588**	**106,879**	**–**	**4,459**	**173**	**3,379**	**3,975**	**205**	**(39,999)**	**180,659**	**9,723**	**190,382**

The notes on pages 34 to 81 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000 (restated)
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		**(76)**	(23,400)
Adjustments for:			
Depreciation of property, plant and equipment		**10,541**	10,262
Impairment of goodwill		**–**	1,846
(Profit)/loss on disposal of property, plant and equipment		**(37)**	18
Property, plant and equipment written off		**1,711**	6,123
Interest income		**(10,502)**	(4,002)
Interest expenses		**5,457**	1,829
Bad debts written off/(recovered)		**1,815**	(41)
Share-based payment expenses		**–**	4,459
Dividend income from unlisted investment		**(847)**	(334)
Unrealised loss on changes in fair values of financial assets		**93**	539
Reversal of impairment loss on receivables		**(2,519)**	–
Write-back of other payables		**(6,897)**	–
Gain on disposal of a subsidiary		**(7)**	–
Gain on disposal of share options		**(476)**	(968)
Amortisation of intangible assets		**784**	–
Amortisation of land lease premium		**44**	43
Changes in fair value of investment property		**(700)**	(1,000)
Negative goodwill on acquisition		**(10,121)**	–
Loss on disposal of jointly controlled entities		**10,121**	1,776
Operating loss before working capital changes		**(1,616)**	(2,850)
(Increase)/decrease in inventories		**(8,168)**	139
Decrease in amounts due from related companies		**–**	159
Decrease in trade and bills receivables		**–**	34,622
Increase in loan and interest receivables		**(55,956)**	–
Increase in other receivables, deposits and prepayments		**(5,517)**	(7,172)
Decrease/(increase) in amount due from a joint venture partner		**769**	(2,047)
Decrease in trade and bills payables		**(11,720)**	(24,377)
Increase/(decrease) in other payables and accruals		**15,201**	(1,045)
Decrease in amounts due to related companies		**–**	(300)
Cash used in operations		**(67,007)**	(2,871)
Interest received		**4,799**	4,002
Interest paid		**(2,961)**	(1,829)
Dividend received from unlisted investment		**847**	334
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		**(64,322)**	(364)

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000 (restated)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(4,875)**	(11,061)
Purchases of construction in progress		**–**	(41)
Acquisition of subsidiaries, net of cash required	36	**58,291**	–
Net proceeds from sale/(purchase) of trading securities		**2,984**	(13,781)
Proceeds on disposal of a subsidiary		**7**	–
Proceeds on disposal of property, plant and equipment		**37**	150
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		**56,444**	(24,733)
FINANCING ACTIVITIES			
Decrease/(increase) in pledged time deposits		**14,500**	(1,132)
Proceeds from new bank loans		**94,720**	38,250
Repayment of bank loans		**(74,600)**	(43,154)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		**34,620**	(6,036)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**26,742**	(31,133)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(4,057)**	(888)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**111,792**	143,813
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	28	**134,477**	111,792

The notes on pages 34 to 81 form an integral part of these financial statements.

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 19 to the financial statements.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Suite 5606, 56th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure provisions of the Listing Rules and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The consolidated financial statements of the Company have been prepared in accordance with HKFRSs and under the historical cost convention, except for the investment property, available-for-sale financial assets, financial assets at fair value through profit or loss and the convertible note that have been measured at fair value.

HKAS 31 – Interests in Joint Ventures

In prior years, the Group's interests in its jointly controlled entities were accounted for using the equity method. Upon the adoption of HKAS 31, which allows the use of proportionate consolidation for investments in jointly controlled entities, the Group changed the accounting policy for its investment in the jointly controlled entities from the equity method to proportionate consolidation. Such change in accounting policy is accounted for retrospectively and involves recognising a proportionate share of each of the jointly controlled entity's assets, liabilities, income and expenses into similar items in the consolidated financial statements on a line-by-line basis.

The change in accounting policy has had no net effect on the consolidated income statement and the net assets of the Group. The comparative amounts on the consolidated balance sheet as at 31 December 2005 and the consolidated income statement for the year ended 31 December 2005 have been restated to reflect the share of assets and liabilities of the jointly controlled entities on a line-by-line basis.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

a) Statement of Compliance *(continued)*

The effects of the change in HKAS 31 for the current and prior years are as follows:

	2006	2005
	HK$'000	*HK$'000*
Effect on the consolidated income statement		
Turnover	**392,413**	316,246
Cost of sales	**(353,743)**	(285,879)
Other revenue	**53,042**	39,712
Selling and distribution costs	**(26,253)**	(19,553)
Administrative expenses	**(64,416)**	(53,988)
Other operating expenses	**–**	(2,463)
Finance costs	**(2,270)**	(1,737)
Non-operating income	**2,013**	1,864
Non-operating expenses	**(2,714)**	(5,983)
Share of results of jointly controlled entities	**–**	11,632
Income tax expenses	**2,391**	149
	463	–

	2006	2005
	HK$'000	*HK$'000*
Effect on the consolidated balance sheet		
Property, plant and equipment	**36,796**	23,837
Construction in progress	**–**	41
Interests in an associate	**–**	1,077
Interests in jointly controlled entities	**(6,640)**	(34,508)
Inventories	**57,992**	27,505
Other receivables, deposits and prepayments	**77,539**	46,439
Amount due from a joint venture partner	**(17,408)**	3,593
Cash and cash equivalents	**118,289**	59,728
Tax payable	**(85)**	(2,369)
Trade payables	**(142,136)**	(83,556)
Other payables and accruals	**(47,884)**	(17,268)
Short term bank loans – unsecured	**(76,000)**	(24,519)
	463	–

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

a) Statement of Compliance *(continued)*

The Group has adopted the following standards that have been issued and effective for the periods beginning on or after 1 January 2006. The adoption of such standards did not have material effect on these financial statements.

HKAS 19 (Amendment)	Actuarial gains or losses, Group plans and disclosures
HKAS 21 (Amendment)	Net Investment in a foreign operation
HKAS 39 (Amendment)	The fair value option
HKFRS – Int 4	Determining whether an arrangement contains a lease

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for annual periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007
HK(IFRIC)-Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC)-Int 9	Reassessment of embedded derivatives	1 June 2006
HK(IFRIC)-Int 10	Interim financial reporting and impairment	1 November 2006
HK(IFRIC)-Int 11	HKFRS 2 – Group and treasury share transactions	1 March 2007
HK(IFRIC)-Int 12	Service concession arrangements	1 January 2008

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December 2006. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate.

All material inter-company transactions and balances are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any goodwill or capital reserves which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the interests in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

c) Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

d) Associates

An associate is a company in which the Group or Company has significant influence and which is neither a subsidiary nor a joint venture of the Company.

The interest in an associate is accounted for in the consolidated balance sheet under the equity method whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associate.

The results of the associate are accounted for in the consolidated income statement to the extent of the Group's share of the associate's results of operations. The consolidated balance sheet includes the Group's share of the net assets of the associates and also goodwill (net of accumulated impairment losses) or negative goodwill on acquisition.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

e) Jointly Controlled Entities

A jointly controlled entity is an entity through which the Group and another party or parties undertake an economic activity which is subject to joint control by a contractual agreement. The Group reports its interest in jointly-controlled entities using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis. Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entities except where unrealised losses provide evidence of an impairment of the assets transferred, where in which case they are recognised immediately in profit or loss.

f) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (note 2(j)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

g) Intangible Assets – Trademarks

Acquired trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 25 years.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

h) Property, Plant and Equipment

Property, plant and equipment other than other properties and investment properties are stated at cost less accumulated depreciation and impairment losses.

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

The gain or loss on disposal of property, plant and equipment other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful lives and taking into account their estimated residual value. The principal annual rates used for this purpose are as follows:

Buildings	10 – 50 years
Leasehold improvements	5 years
Motor vehicles	5 years
Furniture and equipment	5 – 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

i) Construction in Progress

Construction in progress is stated at cost less accumulated impairment losses. Cost comprises all direct and indirect cost of construction. Construction in progress is transferred to property, plant and equipment and depreciation commences when construction is completed and the asset is put into use.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

j) Impairment of Assets

i) *Impairment of investments in debt and equity securities and other receivables*

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

j) Impairment of Assets *(continued)*

ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- land lease premium;
- investments in subsidiaries, associates and jointly controlled entity (except for those classified as held for sale (or included in a disposal group that is classified as held for sale));
- intangible assets; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount
  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses
  An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses
  In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

k) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

l) Financial Assets

The Group classified its financial assets in the following categories: held-to-maturity securities, available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired.

a) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity securities are stated at amortised cost using the effective interest method.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other categories. Purchases and sales of investments are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Changes in fair value are recognised in the investment revaluation reserve until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair values of quoted investments are based on closing bid prices at the balance sheet date. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

l) Financial Assets *(continued)*

c) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. Financial assets at fair value through profit or loss are carried at fair value, realised and unrealised gains and losses arising from changes in the fair value of these investments are included in the income statement in the period in which they arise.

d) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process. They arise when the Group provides money or services directly to a debtor or a related company with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

m) Marketable Securities

Marketable securities are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

n) Revenue Recognition

i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

iii) Rental income is recognised on a time proportion basis over the lease terms.

iv) Proceeds from sales of trading securities are recognised on the transaction dates.

v) Dividend income

- Dividend income from unlisted investments is recognized when the shareholder’s right to receive payment is established.

- Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

o) Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(j)).

p) Trade and Other Payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

q) Foreign Currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

iii) all resulting exchange differences are recognised as a separate component of equity.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

q) Foreign Currencies *(continued)*

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

r) Retirement Scheme

The Group operates a defined contribution mandatory provident fund retirement benefits scheme (the "Hong Kong Scheme") under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the Hong Kong Scheme. The Hong Kong Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Hong Kong Scheme. The assets of the Hong Kong Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Hong Kong Scheme.

s) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Provision is made for obsolete, slow moving or defective items where appropriate.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

t) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that the repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

u) Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

u) Income Tax *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

v) Operating Leases

Lease where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessees, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

w) Investment Properties

Investment properties are interests in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential, these include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value and reviewed annually. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement.

In prior years, the change in the fair value of investment properties was recognised in the property valuation reserve. The deficit of this reserve was charged to the income statement and any subsequent increases were credited to the income statement.

x) Convertible Notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest rate method.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

y) Employee Benefits

i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employee of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

iii) *Share based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

z) Related Parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

aa) Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-Group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

ab) Borrowing Costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowing using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in equity.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

a) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Euros, United Stated dollars and Renminbi.

b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 days from the date of billing. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board of directors when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006.

e) Estimation of fair values of securities

Fair values of securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs. Fair values for the unquoted equity investments are estimated using the applicable price/earning ratios for similar listed companies adjusted for the specific circumstances of the issuer.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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 Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

b) Estimate fair value of investment property

The investment property was revalued at the balance sheet date on market value existing use basis by independent qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

c) Estimated provision for impairment of trade and other receivables

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Provision are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been charged.

d) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the fair value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

e) Estimated fair value of available-for-sale financial assets

The fair value of financial instruments in active markets (such as trading securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the closing bid price at the balance sheet date.

The fair value of financial instruments that are not traded in active market is determined based on available recent market information such as most recent market transaction price with third parties and the latest available financial information existing at each balance sheet date.

5. TURNOVER AND OTHER REVENUE

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

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Turnover		
Sale of goods	**–**	61,531
Supermarket chain operation	**392,413**	316,246
Sales of trading securities	**38,448**	25,833
Gross rental income from investment property	**176**	205
	431,037	403,815
Other revenue		
Dividend income from unlisted investments	**847**	334
Bank interest income	**4,237**	3,902
Loan interest income	**6,265**	100
Bad debts recovered	**–**	41
Profit on disposal of a subsidiary	**7**	–
Gain on disposal of share options	**476**	968
Reversal of impairment loss on receivables	**2,519**	–
Write back of other payables	**6,897**	–
Exchange gain, net	**–**	62
Profit on disposal of property, plant and equipment	**37**	–
Gross rental income from leasing of shop premises	**11,393**	7,889
Promotion and store display income from suppliers	**39,949**	28,670
Others	**1,419**	3,222
	74,046	45,188

6. SEGMENT INFORMATION

a) Business segments

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

	Trading of chemical fertiliser		Trading of securities and property investment		Supermarket chain operation		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)
Segment revenue:								
Turnover	**–**	61,488	**38,624**	26,081	**392,413**	316,246	**431,037**	403,815
Other revenue	**–**	350	**11,522**	4,357	**53,042**	39,700	**64,564**	44,407
Total	**–**	61,838	**50,146**	30,438	**445,455**	355,946	**495,601**	448,222
Segment results	**(126)**	574	**(3,100)**	(10,077)	**341**	(10,056)	**(2,885)**	(19,559)
Profit/(loss) on disposal of:								
– jointly controlled entities							**(10,121)**	(1,776)
– subsidiary							**7**	–
Increase in fair value of investment property							**700**	1,000
Recognition of negative goodwill on acquisition							**10,121**	–
Unallocated gains							**9,475**	781
Unallocated expenses							**(1,916)**	(2,017)
Profit/(loss) from operations							**5,381**	(21,571)
Finance costs							**(5,457)**	(1,829)
Loss before taxation							**(76)**	(23,400)
Taxation							**2,391**	149
Profit/(loss) for the year							**2,315**	(23,251)

6. SEGMENT INFORMATION *(continued)*

a) Business segments *(continued)*

	Trading of chemical fertiliser		Trading of securities and property investment		Supermarket chain operation		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)
Segment assets	**17**	2,109	**262,441**	150,052	**290,615**	159,939	**553,073**	312,100
Interests in associates	**–**	–	**2,112**	1,077	**–**	–	**2,112**	1,077
Total assets	**17**	2,109	**264,553**	151,129	**290,615**	159,939	**555,185**	313,177
Segment liabilities	**–**	2,634	**98,698**	13,649	**266,105**	123,217	**364,803**	139,500
Other segment information:								
Depreciation of property, plant and equipment	**9**	24	**426**	358	**10,106**	9,880	**10,541**	10,262
Amortisation of								
– land lease premium	**–**	–	**44**	43	**–**	–	**44**	43
– intangible assets	**–**	–	**784**	–	**–**	–	**784**	–
Bad debts written off	**244**	–	**1,571**	–	**–**	–	**1,815**	–
Other non-cash expenses								
– impairment of goodwill	**–**	–	**–**	1,846	**–**	–	**–**	1,846
Capital expenditure								
– through acquisition of subsidiaries	**–**	–	**4**	–	**18,900**	–	**18,904**	–
– others	**–**	–	**9**	572	**4,866**	10,489	**4,875**	11,061
Increase in fair value	**–**	–	**700**	1,000	**–**	–	**700**	1,000

6. SEGMENT INFORMATION *(continued)*

b) Geographical segments

In determining the Group's geographical segment, revenues is attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

	Hong Kong		PRC		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		(restated)		(restated)
Segment revenue:						
Turnover	**38,624**	26,038	**392,413**	377,777	**431,037**	403,815
Other segment information:						
Segment assets	**234,110**	146,356	**321,075**	166,821	**555,185**	313,177
Capital expenditure						
– through acquisition of subsidiaries	**4**	–	**18,900**	–	**18,904**	–
– others	**–**	572	**4,875**	10,489	**4,875**	11,061

7. PROFIT/(LOSS) FROM OPERATIONS

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

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Depreciation	**10,541**	10,262
Amortisation of land lease premium	**44**	43
Amortisation of intangible assets	**784**	–
Operating lease payments – land and buildings	**21,894**	15,128
Auditors' remuneration	**918**	571
Bad debts written off	**1,815**	–
Impairment of goodwill	**–**	1,846
Staff costs (including directors' remuneration – note 9):		
Salaries, allowances and other benefits	**25,909**	23,018
Pension scheme contribution	**666**	468
Severance payment	**1,739**	–
Share-based payment expenses	**–**	4,459
	28,314	27,945
Increase in fair value of investment property	**(700)**	(1,000)
Rental income from investment properties less direct outgoings of HK$1,000 (2005: HK$4,000)	**(22)**	(21)
Unrealised loss on changes in fair value of financial assets	**93**	539
Property, plant and equipment written off	**1,711**	6,123
(Profit)/loss on disposal of property, plant and equipment	**(37)**	18

8. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Interest expense on bank loans, bank overdrafts and other loans repayable within five years	**2,961**	1,829
Interest on convertible note *(note 31)*	**2,496**	–
	5,457	1,829

9. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

i) The details of emoluments of every director are shown below:

	Year ended 31 December 2006				
Name of Director	Fees	Basic salaries, allowances and other benefits	Share-based payments	Pension scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cheung Siu Lam	–	2,980	–	12	2,992
Chan Yuk Ming	–	807	–	12	819
Lo Wan	–	291	–	12	303
Yu Hei Wung, Raymond *(Note 1)*	–	120	–	6	126
Wang Jian Sheng	42	–	–	–	42
Chan Chun Keung	42	–	–	–	42
Yue Ming Wai, Bonaventure *(Note 2)*	42	–	–	–	42
Tang Tse Yee, Kennedy *(Note 3)*	24	–	–	–	24
	150	4,198	–	42	4,390

Notes:

1. Re-designated from executive director to non-executive director with effect from 1 August 2005 and resigned as non-executive director on 7 March 2007.

2. Appointed on 1 June 2006.

3. Resigned on 1 June 2006.

9. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION *(continued)*

i) The details of emoluments of every director are shown below: *(continued)*

	Year ended 31 December 2005				
Name of Director	Fees	Basic salaries, allowances and other benefits	Share-based payments	Pension scheme contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cheung Siu Lam	–	2,980	48	12	3,040
Chan Yuk Ming	–	807	477	12	1,296
Lo Wan	–	291	48	12	351
Yu Hei Wung, Raymond	–	597	333	10	940
Wang Jian Sheng	40	–	–	–	40
Chan Chun Keung	40	–	–	–	40
Tang Tse Yee, Kennedy	50	–	–	–	50
	130	4,675	906	46	5,757

No directors waived any emoluments during the year. No incentive payment or compensation for loss of office was paid or payable to any directors for the year ended 31 December 2006 (2005: Nil).

ii) Details of emoluments paid to the five highest paid individuals (including directors and other employees) were as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits	**4,976**	5,183
Pension scheme contributions	**60**	58
Share-based payments	**–**	1,230
	5,036	6,471

	2006	2005
Number of directors	**3**	3
Number of employees	**2**	2
	5	5

9. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION *(continued)*

ii) Details of emoluments paid to the five highest paid individuals (including directors and other employees) were as follows: *(continued)*

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as inducement to join or upon joining the Group as compensation for loss of office.

The number of the five highest paid individuals whose remuneration fall within the following bands were as follows:

	2006	2005
Nil – HK$1,000,000	**4**	3
HK$1,000,001 – HK$2,000,000	**–**	1
HK$2,000,001 – HK$3,000,000	**1**	–
HK$3,000,001 – HK$4,000,000	**–**	1
	5	5

10. INCOME TAX

a) The taxation in the consolidated income statement represents:

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Provision for Hong Kong Profits Tax		
Tax for the year	**–**	–
Provision for PRC enterprise income tax		
Over provision in prior years	**(2,391)**	(149)
Tax credit for the year	**(2,391)**	(149)

10. INCOME TAX *(continued)*

a) The taxation in the consolidated income statement represents: *(continued)*

Income tax for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Loss before taxation	**(76)**	(23,400)
Notional tax on loss before tax, calculated at the rate applicable to loss in the tax jurisdiction concerned	**(424)**	(5,704)
Income not subject to taxation	**(1,016)**	(668)
Expenses not deductible for taxation purposes	**1,555**	5,348
Utilisation of tax losses previously not recognised	**(1,817)**	(736)
Deferred tax assets not recognised	**1,650**	1,781
Over-provision in prior years	**(2,391)**	(149)
Reversal of temporary difference	**52**	(21)
Tax credit	**(2,391)**	(149)

No Hong Kong profits tax has been provided for in the financial statements as the Group has no assessable profits for the year (2005: Nil).

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

b) Taxation in the consolidated balance sheet represents:

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Hong Kong profits tax payable	**–**	–
PRC enterprise income tax payable	**85**	2,369
	85	2,369

11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit/(loss) attributable to equity holders of the Company for the year dealt with in the financial statements of the Company is net loss of HK$6,236,000 (2005: net loss of HK$12,109,000).

12. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2006 (2005: Nil).

13. EARNINGS/(LOSS) PER SHARE

i) The calculation of basic earnings/(loss) per share for the year is based on the net profit attributable to equity holders of the Company of HK$2,316,000 (2005: net loss of HK$23,251,000) and the weighted average number of 1,015,877,336 (2005: 1,015,877,336) shares in issue during the year.

ii) The diluted earnings/(loss) per share for the year is calculated by dividing the net profit attributable to equity holders of the Company of HK$2,316,000 by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that are assumed to have been issued at no consideration on the deemed exercise or conversion of all share options into ordinary shares.

The effect of convertible note is anti-dilutive and is not included in the calculation of diluted earnings/(loss) per share for the year ended 31 December 2006.

The calculation of basic and diluted earnings/(loss) per share are based on:

	2006	2005
	HK$'000	*HK$'000*
Earnings		
Profit/(loss) attributable to equity holders of the Company	**2,316**	(23,251)

	Number of Shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in the calculation of basic earnings/(loss) per share	**1,015,877,336**	1,015,877,336
Effect of dilution – weighted average number of ordinary shares:		
Share options	**22,228,296**	4,247,675
	1,038,105,632	1,020,125,011

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and equipment HK$'000	Total HK$'000
Cost					
At 1/1/2005					
– as previously reported	2,217	776	2,226	420	5,639
– effect on adoption of HKAS 31	–	25,566	1,072	33,588	60,226
– as restated	2,217	26,342	3,298	34,008	65,865
Additions	–	5,672	622	4,767	11,061
Transfer from construction in progress	–	352	–	–	352
Disposals	–	(4,439)	(321)	(4,323)	(9,083)
Exchange adjustment	–	737	31	970	1,738
At 31/12/2005 (as restated)	2,217	28,664	3,630	35,422	69,933
At 1/1/2006					
– as previously reported	2,217	776	2,484	456	5,933
– effect on adoption of HKAS 31	–	27,888	1,146	34,966	64,000
– as restated	2,217	28,664	3,630	35,422	69,933
Additions					
– through acquisition of subsidiaries	–	8,416	303	10,185	18,904
– others	–	1,413	167	3,295	4,875
Transfer from construction in progress	–	41	–	–	41
Disposals	–	(717)	(547)	(3,054)	(4,318)
Exchange adjustment	–	1,117	46	1,400	2,563
At 31/12/2006	**2,217**	**38,934**	**3,599**	**47,248**	**91,998**
Accumulated depreciation					
At 1/1/2005					
– as previously reported	1,138	550	1,751	274	3,713
– effect on adoption of HKAS 31	–	14,997	632	16,407	32,036
– as restated	1,138	15,547	2,383	16,681	35,749
Charge for the year	38	3,912	343	5,969	10,262
Written back on disposal	–	(1,187)	(128)	(1,477)	(2,792)
Exchange adjustment	–	433	18	473	924
At 31/12/2005 (as restated)	1,176	18,705	2,616	21,646	44,143
At 1/1/2006					
– as previously reported	1,176	625	1,846	333	3,980
– effect on adoption of HKAS 31	–	18,080	770	21,313	40,163
– as restated	1,176	18,705	2,616	21,646	44,143
Charge for the year	38	3,251	446	6,806	10,541
Written back on disposal	–	(174)	(460)	(1,973)	(2,607)
Exchange adjustment	–	723	31	853	1,607
At 31/12/2006	**1,214**	**22,505**	**2,633**	**27,332**	**53,684**
Net book value					
At 31/12/2005 (as restated)	1,041	9,959	1,014	13,776	25,790
At 31/12/2006	**1,003**	**16,429**	**966**	**19,916**	**38,314**

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The net book value of the Group's buildings, which are held under long term leases, is analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
Situated in:		
Hong Kong	**334**	344
PRC	**669**	697
	1,003	1,041

Company

	Leasehold improvements	**Motor vehicle**	**Furniture and equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1/1/2005	378	768	130	1,276
Additions	–	–	34	34
At 31/12/2005 and 31/12/2006	**378**	**768**	**164**	**1,310**
Accumulated depreciation				
At 1/1/2005	151	461	52	664
Charge for the year	76	154	32	262
At 31/12/2005 and 1/1/2006	227	615	84	926
Charge for the year	76	153	33	262
At 31/12/2006	**303**	**768**	**117**	**1,188**
Net book value				
At 31/12/2005	151	153	80	384
At 31/12/2006	**75**	**–**	**47**	**122**

15. LAND LEASE PREMIUM

The Group's interests in land lease premium represent prepaid operating lease payments and their carrying amount are analysed as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Cost		
At 1 January and 31 December	**2,688**	2,688
Accumulated amortisation		
At 1 January	**573**	530
Amortisation for the year	**44**	43
At 31 December	**617**	573
Net carrying amount		
At 31 December	**2,071**	2,115
Leases of between 10 to 50 years, held in:		
Hong Kong	**951**	974
PRC	**1,120**	1,141
	2,071	2,115

16. INVESTMENT PROPERTY

	Group	
	2006	2005
	HK$'000	*HK$'000*
At valuation:		
Balance at beginning of year	**12,500**	11,500
Increase in fair value	**700**	1,000
Balance at end of year	**13,200**	12,500

The Group's investment property is situated at Flat B1, 16th Floor, Block B and Carpark No. 119 at Carpark 4, Beverly Hill, No. 6 Broadwood Road, Happy Valley, Hong Kong. It is held under a long term lease for residential use. The investment property was revalued on 31 December 2006 by A.G. Wilkinson Associates, an independent qualified valuers, on an open market, existing use basis.

The investment property is leased to a third party under operating lease, further summary details of which are included in note 37(a) to the financial statements.

The Group's investment property was pledged to the Company's banker to secure banking facilities granted to the Group (note 39).

17. INTANGIBLE ASSETS – TRADEMARKS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Cost		
Balance as at 1 January	**–**	–
Additions through acquisition of a subsidiary *(note 36(b))*	**58,800**	–
Balance as at 31 December	**58,800**	–
Accumulated amortisation		
Balance as at 1 January	**–**	–
Amortisation for the year	**784**	–
Balance as at 31 December	**784**	–
Net carrying value		
Balance as at 31 December	**58,016**	–

The amortisation charge for the year is included in administrative expenses in the consolidated income statement.

18. CONSTRUCTION IN PROGRESS

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Balance as at 1 January	**41**	342
Additions	**–**	41
Exchange adjustment	**–**	10
Transfer to property, plant and equipment	**(41)**	(352)
Balance as at 31 December	**–**	41

19. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**33,049**	33,049
Less: Impairment loss	**(19,250)**	(19,250)
	13,799	13,799

19. INTERESTS IN SUBSIDIARIES *(continued)*

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
K.P.B. Group Holdings Limited	British Virgin Islands ("BVI")/Hong Kong	Ordinary US$12	100	–	Investment holding
Charter Merit Limited	Hong Kong	Ordinary HK$2	–	100	Holding of a club membership
Charter Paradise Limited	Hong Kong	Ordinary HK$2	–	100	Holding of a club membership
K.P.A. Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100	Property investment
K.P.B. Asset Holdings Limited	BVI/Hong Kong	Ordinary US$6	–	100	Investment holding
K.P.B. Marketing Limited	BVI/Hong Kong	Ordinary US$2	–	100	Investment holding
K.P.B. – T.C. Holdings Limited	BVI/Hong Kong	Ordinary US$1	–	100	Investment holding
K.P.B. Trading Limited	BVI/Hong Kong	Ordinary US$4	–	100	Investment holding
K.P.I. Development Limited	Hong Kong	Ordinary HK$2 Deferred HK$10,000	–	100	Trading of financial securities

19. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
K.P.I. Industries Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100	Investment holding and property investment
K.P.I. International Trading Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100	Trading of financial securities
K.P.I. (BVI) Retail Management Company Limited	BVI/Hong Kong	US$18,087,700	–	100	Investment holding
K.P.I. Convenience Retail Company Limited	BVI/Hong Kong	US$50,000	–	51	Investment holding
海口港佳貿易有限公司 *(Note 1)*	PRC	Registered capital US$5,400,000	–	100	Investment holding
上海港佳倍盛經貿有限公司# *(Note 2)*	PRC	RMB2,000,000	–	100	General trading
上海綠葉生物高科技有限公司 *(Note 3)*	PRC	US$200,000	–	100	Ceased operation
Wainwright International Limited	BVI/Hong Kong	US$2	–	100	Investment holding

Not audited by CCIF CPA Limited

Notes:

1) 海口港佳貿易有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to August 2015.

2) 上海港佳倍盛經貿有限公司 is a Sino-foreign equity joint venture established in the PRC to be operated for 10 years up to March 2012.

3) 上海綠葉生物高科技有限公司 is a wholly foreign owned enterprise established in the PRC to be operated for 14 years up to October 2013.

20. INTERESTS IN ASSOCIATES

	Group 2006 HK$'000	2005 HK$'000 (restated)
Share of net assets	**2,112**	1,077

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

Name	Business structure	Place of registration and operations	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Taicang Huifeng Chemical Fertiliser Company Limited# *(Note 1)*	Corporate	PRC	30%	–	30%	Processing and trading of chemical fertilisers
上海華聯港佳商業經營管理有限公司# *(Note 2)*	Corporate	PRC	49%	–	49%	Investment holding

\# Not audited by CCIF CPA Limited.

Notes:

1) Taicang Huifeng Chemical Fertiliser Company Limited is a Sino-foreign equity joint venture established in the PRC to be operated for 30 years up to May 2025.

2) 上海華聯港佳商業經營管理有限公司 is a Sino-foreign equity joint venture established in the PRC to be operated for 25 years up to April 2021.

20. INTERESTS IN ASSOCIATES *(continued)*

Summary financial information on associates:

	2006		2005	
	100%	**Group's effective interest**	100%	Group's effective interest
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Assets	**4,310**	**2,112**	4,310	1,077
Liabilities	**–**	**–**	–	–
Equity	**4,310**	**2,112**	4,310	1,077
Revenue	**–**	**–**	–	–
Profit/(loss)	**–**	**–**	–	–

21. INTERESTS IN A JOINTLY CONTROLLED ENTITY

Details of the Group's interest in the jointly controlled entity are as follows:

				Proportion of ownership interest			
Name	**Business structure**	**Place of establishment and operations**	**Value of issued share capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activities**
華聯集團吉買盛購物中心有限公司 *(Note)*	Corporate	PRC	Registered capital RMB80,000,000	40%	–	40%	Supermarket chain operation

Note: 華聯集團吉買盛購物中心有限公司 is a equity joint venture established in the PRC to be operated for 20 years up to March 2016.

21. INTERESTS IN A JOINTLY CONTROLLED ENTITY *(continued)*

Summary financial information on the jointly controlled entity:

	2006		2005	
		Group's effective		Group's effective
	100%	**interest**	100%	interest
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Assets	**726,538**	**290,615**	628,186	128,150
Liabilities	**(708,782)**	**(283,513)**	(612,815)	(125,014)
Equity	**17,756**	**7,102**	15,371	3,136
Revenue	**1,456,980**	**392,413**	1,550,227	316,246
Profit/(loss)	**1,720**	**463**	(49,071)	(10,011)

22. GOODWILL

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Cost		
At 1 January	**1,846**	3,127
Additions through acquisition of a subsidiary *(note 36(b))*	**13,493**	–
Effect of changes in HKFRS 3	**–**	(1,281)
At 31 December	**15,339**	1,846
Accumulated impairment		
At 1 January	**1,846**	1,281
Effect of changes in HKFRS 3	**–**	(1,281)
Impairment of goodwill	**–**	1,846
At 31 December	**1,846**	1,846
Net carrying value		
At 31 December	**13,493**	–

23. AMOUNT DUE FROM A JOINT VENTURE PARTNER

The amount due from a joint venture partner is unsecured, non-interest bearing and is not repayable within the next twelve months.

24. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Unlisted investments:		
– Golf club memberships, at fair value	**2,761**	2,761
– Long term equity interest, at cost	**773**	773
Total	**3,534**	3,534

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Listed securities – Hong Kong	**5,307**	7,881
Unlisted securities – Hong Kong	**8,600**	8,564
	13,907	16,445
Held for trading	**13,907**	16,445

Changes in fair values of financial assets at fair value through profit or loss are recorded in the income statement.

26. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Commodities held for sale	**57,992**	27,505

27. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

28. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		
Cash and bank balances	**120,770**	63,051	**1,696**	1,299
Time deposits	**37,107**	86,641	**37,107**	83,317
	157,877	149,692	**38,803**	84,616
Less: Pledged time deposits against shore term bank loans and trust receipts	**(23,400)**	(37,900)	**(23,400)**	(37,900)
Cash and cash equivalents	**134,477**	111,792	**15,403**	46,716

Cash and cash equivalents include short-term bank deposits carrying interest at prevailing market rates. The directors consider the carrying value of the amount at the balance sheet date approximates to the fair value.

Included in the cash and cash equivalents are the following amounts denominated in a currency other than functional currency of the entity to which they relate:

	Group		Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
United States Dollars ("USD")	**USD570**	USD5,054	**USD554**	USD4,341
Renminbi ("RMB")	**RMB118,669**	RMB57,768	**–**	–

29. TRADE PAYABLES

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Outstanding balances with ages		
Due within 1 month or on demand	**62,138**	52,020
Due after 1 month but within 3 months	**79,998**	31,536
	142,136	83,556

30. SHORT TERM BANK LOANS – UNSECURED

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Repayable within one year	**76,000**	24,519

The short term bank loans represent the Group's share of bank loans from its jointly controlled entity, which are unsecured and denominated in RMB, bear annual interest rates ranging from 4.425% to 6.138%. The bank loans are repayable within three to twelve months.

31. CONVERTIBLE NOTE

On 31 August 2006, the Company issued interest-free convertible note ("Note") with a nominal value of HK$93 million ("Principal Amount") to an independent noteholder. The noteholder has the right to convert the whole (but not part only) of the Principal Amount of the Note into ordinary shares ("Shares") with a maturity date due on 31 August 2008. The Company is required to repay the Note to the noteholder at 113% on maturity.

The conversion price is HK$0.32 per Share, subject to normal anti-dilutive adjustment. The noteholder may convert the Note to Shares at any time from the date of issuance to the date of maturity ("Conversion Period"). In addition, the Principal Amount of the Note shall automatically be converted into Shares at the price of HK$0.34, if the average daily trading price of the Shares for 20 consecutive business days as quoted on The Stock Exchange of Hong Kong Limited ("Stock Exchange") is HK$0.36 or higher and the daily traded volume of the Shares for each such business day as quoted on the Stock Exchange is 4,000,000 Shares or higher during the Conversion Period.

The fair value of the liability component and the equity conversion component were determined at issuance of the Note. The fair value of the liability component was calculated using a market interest rate. The residual amount, representing the value of the equity conversion component, has been included in the convertible note reserve.

The convertible note recognised in the balance sheets are calculated as follows:

	Group and Company	
	2006	2005
	HK$'000	*HK$'000*
Nominal value of convertible note issued during the period	**93,000**	–
Equity component	**(3,975)**	–
Liability component at the issuance date	**89,025**	–
Interest expenses *(note 8)*	**2,496**	–
Liability component at balance sheet date	**91,521**	–

32. DEFERRED TAX

Deferred tax assets are to be recognised for the carry forward of unused tax losses 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 deferred tax assets in respect of tax losses of HK$14,159,000 (2005: HK$14,375,000). The unrecognised tax losses, mainly to Hong Kong companies, can be carried forward indefinitely.

33. SHARE CAPITAL

	No. of shares	*HK$'000*
Authorised		
Ordinary share of HK$0.10 each	2,000,000,000	200,000
Issued and fully paid		
At 1 January 2005 and 2006 and 31 December 2005 and 2006	1,015,877,336	101,588

34. SHARE OPTIONS

The Company has a share option scheme which was adopted on 7 June 2004 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at nil consideration to subscribe for shares of the Company. The options vest from the date of grant and are then exercisable within a period of ten years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	**Vesting conditions**	**Contractual life of options**
Options granted to directors:			
– on 2 February 2005	19,000,000	No vesting conditions	10 years
Options granted to employees:			
– on 10 January 2005	48,500,000	No vesting conditions	10 years
– on 1 September 2005	32,000,000	No vesting conditions	10 years
Total share options	99,500,000		

34. SHARE OPTIONS *(continued)*

b) The number and weighted average exercise price of share options are as follows:

	2006		2005	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HK$	***'000***	*HK$*	*'000*
Outstanding at beginning of the year	**0.138**	**99,500**	–	–
Exercised during the year	**–**	**–**	–	–
Granted during the year	**–**	**–**	0.138	99,500
Outstanding at end of the year	**0.138**	**99,500**	0.138	99,500
Exercisable at end of the year	**0.138**	**99,500**	0.138	99,500

The options outstanding at 31 December 2006 had an exercise price of HK$0.138 (2005: HK$0.138) and a weighted average remaining contractual life of 7.43 years (2005: 8.43 years).

c) Fair value of share options and assumptions

The fair value of services received in return of share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial model.

		2005	
	31 January	**28 February**	**13 September**
Fair value of options granted	HK$0.04247	HK$0.04768	HK$0.04666
Inputs into the binomial pricing model:			
Share price at grant date	HK$0.131	HK$0.147	HK$0.144
Exercise price	HK$0.126	HK$0.138	HK$0.156
Expected volatility	107%	107%	107%
Expected life	10 years	10 years	10 years
Risk-free interest rate	3.62%	3.85%	4.10%
Expected dividend per share	–	–	–

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

35. RESERVES

Group

	Share premium	Capital reserve	Share-based compensation reserve	Statutory public welfare reserve	Exchange fluctuation reserve	Convertible note reserve	Statutory surplus reserve	Accumulated losses	Attributable to equity holders of the Company	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005											
– as previously reported	106,879	30,652	–	173	2,613	–	205	(49,455)	91,067	–	91,067
– effect of change in accounting policies under HKAS 17	–	–	–	–	–	–	–	(261)	(261)	–	(261)
– opening adjustment for the adoption of HKFRS 3	–	(30,652)	–	–	–	–	–	30,652	–	–	–
– as restated	106,879	–	–	173	2,613	–	205	(19,064)	90,806	–	90,806
Exchange adjustment	–	–	–	–	75	–	–	–	75	–	75
Employee share option benefits	–	–	4,459	–	–	–	–	–	4,459	–	4,459
Loss for the year	–	–	–	–	–	–	–	(23,251)	(23,251)	–	(23,251)
At 31 December 2005	106,879	–	4,459	173	2,688	–	205	(42,315)	72,089	–	72,089
At 1 January 2006	106,879	–	4,459	173	2,688	–	205	(42,315)	72,089	–	72,089
Exchange adjustment	–	–	–	–	691	–	–	–	691	–	691
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	9,724	9,724
Recognition of equity component of convertible note	–	–	–	–	–	3,975	–	–	3,975	–	3,975
Profit for the year	–	–	–	–	–	–	–	2,316	2,316	(1)	2,315
At 31 December 2006	**106,879**	**–**	**4,459**	**173**	**3,379**	**3,975**	**205**	**(39,999)**	**79,071**	**9,723**	**88,794**

35. RESERVES *(continued)*

Group *(continued)*

	2006	2005
	HK$'000	*HK$'000*
Accumulated losses retained by:		
Company and its subsidiaries	**(3,646)**	(5,499)
Jointly controlled entity	**(36,353)**	(36,816)
	(39,999)	(42,315)

Company

	Share premium	**Share-based compensation reserve**	**Convertible note reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1/1/2005	106,879	–	–	(52,159)	54,720
Loss for the year	–	–	–	(12,109)	(12,109)
Employee share option benefits	–	4,459	–	–	4,459
At 31/12/2005 and 1/1/2006	106,879	4,459	–	(64,268)	47,070
Recognition of equity component of convertible note	–	–	3,975	–	3,975
Loss for the year	–	–	–	(6,236)	(6,236)
At 31/12/2006	106,879	4,459	3,975	(70,504)	44,809

At 31 December 2006, the Company has no reserve available for distribution as calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

36. ACQUISITION OF A SUBSIDIARY

a) In April 2006, K.P.I. (BVI) Retail Management Company Limited ("KPIRM") agreed to dispose all of its equity interests in K.P.I. Convenience Retail Company Limited ("KPICR") to K.P.B. Marketing Limited ("KPB Marketing") and the minority shareholder of KPIRM at a nominal consideration of HK$1 each to KPIRM to obtain 51% and 49% of the shares of KPICR from KPIRM respectively. KPICR then became a direct subsidiary of the Group.

On the effective date of the acquisition, the assets and liabilities of KPICR was as follows:

	Carrying amount and fair value of the acquiree *HK$'000*
Cash and cash equivalents	3
Other receivables	19,842
Net assets acquired	19,845
Minority interest	(9,724)
	10,121
Negative goodwill on acquisition	(10,121)
	–
Satisfied by:	
Cash consideration	–
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	3

b) On 31 August 2006, the Company's subsidiary, KPB Marketing, acquired additional 49% equity interest in KPIRM. Before the completion of the acquisition, KPIRM was a jointly controlled entity of which 51% of its equity interest was held by KPB Marketing. KPIRM had two direct wholly owned subsidiaries, KPICR and 海口港佳貿易有限公司 ("海口港佳"). 海口港佳 was holding 40% equity interest in 華聯吉買盛購物中心有限公司 ("華聯吉買盛"). KPICR, the wholly owned subsidiary of KPIRM, was disposed in April 2006 to KPB Marketing (note 36(a)).

After the completion of the acquisition, KPIRM and 海口港佳 became the wholly owned subsidiaries of the Group. Since 華聯吉買盛 is owned as to 40% by 海口港佳, 華聯吉買盛 will continue to be accounted for as a jointly controlled entity of the Group.

The acquisition was settled by way of issue of convertible note of the Company at a consideration of HK$93 million (note 31). The acquisition will not involve payment of liquid funds of the Group and accordingly will not have any material adverse effect on the working capital or the financial position of the Group.

36. ACQUISITION OF A SUBSIDIARY *(continued)*

The acquisition of the additional 49% equity interest in KPIRM is accounted for under the purchase method of accounting.

The net assets acquired, being the fair value, in the transaction, and goodwill on acquisition, are as follows:

	Carrying amount and fair value of the acquiree *HK$'000*
Property, plant and equipment	18,904
Interest in an associate	1,035
Inventories	22,319
Other receivables, deposits and prepayments	32,633
Amount due from a joint venture partner	1,308
Cash and cash equivalents	59,788
Trade payables	(70,300)
Other payables and accruals	(10,804)
Tax payable	(2,296)
Short term bank loans – unsecured	(30,380)
Net assets acquired	22,207
Intangible asset acquired on acquisition*	58,800
Goodwill arising on acquisition *(note 22)*	13,493
	94,500
Satisfied by	
Cash consideration	1,500
Convertible note	93,000
	94,500

* The intangible asset consists of trademark and was valued at approximately HK$147 million on 30 June 2006 by independent qualified valuers, Greater China Appraisal Limited, under the Relief-from-royalty method at the date of acquisition.

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	(1,500)
Cash and cash equivalents acquired	59,788
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	58,288

37. OPERATING LEASE COMMITMENT

a) As lessor

The Group leases its investment property (note 16 to the financial statements), shop premises of supermarket chain operation and golf club membership under operating lease arrangements, with leases negotiated for terms one year for investment property, one to ten years for shop premises of supermarket chain operation and one to two years for golf club membership. The terms of the leases generally also require the lessees to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Within one year	**8,659**	2,856
In the second to fifth years, inclusive	**18,397**	6,571
After the fifth years	**9,721**	4,509
	36,777	13,936

b) As lessee

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

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

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		
Within one year	**31,845**	15,427	**2,507**	1,114
In the second to fifth years, inclusive	**129,528**	60,669	**2,979**	–
After the fifth years	**222,018**	125,566	**–**	–
	383,391	201,662	**5,486**	1,114

38. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

a) Related party transactions included in the income statement:

	2006 *HK$'000*	2005 *HK$'000*
Rental expenses to a company controlled by directors *(note 1)*	**996**	996
Profit on disposal of a subsidiary *(note 2)*	**(7)**	–

Notes:

1) Rental expenses for two directors were paid to a company controlled by them. The monthly rental of HK$83,000 was calculated by reference to open market rental.

2) On 25 July 2006, a subsidiary namely South Asian Power Investment Limited was disposed at a consideration of HK$7,400 to Mr. Cheung Siu Lam and Madam Lo Wan, the directors of the Company.

b) Compensation of key management personnel of the Group

	2006 *HK$'000*	2005 *HK$'000*
Salaries, allowances and other benefits	**2,980**	2,980
Pension scheme contribution	**12**	12
Share-based payments expenses	**–**	48
	2,992	3,040

Note: Further details of pension scheme contribution and directors' emoluments are included in note 9 to the financial statements.

39. BANKING FACILITIES

As at 31 December 2006, the Group was granted banking facilities amounting to approximately HK$78,000,000 which were secured by the investment property (note 16) and the time deposit (note 28) of the Group. The Group has not utilised these banking facilities as at 31 December 2006.

As at 31 December 2006, the Group's share from its jointly controlled entity's bank loan facilities amounted to HK$76,000,000 (2005: HK$24,519,000).

40. ULTIMATE CONTROLLING PARTY

The directors regard Mr. Cheung Siu Lam through its direct shareholding as being the ultimate controlling party.

41. COMPARATIVE FIGURES

Certain items in the financial statements were reclassified as a result of the changes in accounting policies. Accordingly, certain comparative figures have been reclassified to conform with the current years' presentation.

Financial Summary

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified or restated as appropriate, is set out below.

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)	(restated)		
Results					
Turnover	**431,037**	403,815	140,953	296,151	72,809
Profit/(loss) for the year	**2,315**	(23,251)	11,822	10,337	(35,863)
Attributable to:					
Equity holders of the Company	**2,316**	(23,251)	11,822	10,337	(35,863)
Minority interest	**(1)**	–	–	–	–
	2,315	(23,251)	11,822	10,337	(35,863)

	As at 31 December				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)	(restated)		
Assets and liabilities					
Total assets	**555,185**	313,177	362,120	219,552	177,864
Total liabilities	**(364,803)**	(139,500)	(169,726)	(70,818)	(13,746)
Minority interest	**(9,723)**	–	–	–	–
Balance of total equity attributable to equity holders of the Company	**180,659**	173,677	192,394	148,734	164,118