K.P.I. Company Limited

2005

Interim Report

CONTENTS

The Board of Directors (the "Board") of K.P.I. Company Limited (the "Company") is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

For the six months ended 30 June 2005 the Group's unaudited turnover was approximately HK$61.6 million, which represents a decrease of 42% as compared to the corresponding figure for the six months ended 30 June 2004. Unaudited consolidated loss attributable to shareholders amounted to approximately HK$5.9 million of which approximately HK$2.1 million was charged to staff cost expenses under the adoption of FRS2 in relation to the granting of share options to certain eligible employees during the first half of 2005.

Business Review

During the first half of 2005, the Company effectively realized its development direction and plans step by step; by further reducing chemical fertiliser trading and injecting more capital and human resources into retailing. To further increase investment in retailing and other related businesses in the PRC, the Company is actively seeking strategic partners for collaboration.

Up to 30 June 2005, the net assets of the Company are approximately HK$188.9 million, among which approximately HK$107.0 million is cash. The capital currently held is sufficient to meet the needs for the present business operation.

Trading Business

Turnover of trading of chemical fertilisers amounted to approximately HK$61.6 million. The reduction of trade volume is due to our gradual withdrawal from large transactions of fertiliser trading.

Retailing Business

Since 11 December 2004, pursuant to the undertakings of the PRC government concerning the General Agreement on Tariffs and Trade and the relevant laws of the Ministry of Commerce, the PRC market has been completely open for the investment of foreign-owned retailing business. The pattern of the retailing market in the PRC has thus undergone major transformation. The most significant part is that, with the coming of a large number of international retailing enterprises, the market competition in eastern and southern PRC has further intensified. The development of hypermarkets is particularly rapid. The frequent investment and merger and acquisition of domestic enterprises by foreign-owned enterprises, the escalating purchasing power within the country and the domestic retailing enterprises' own needs in enhancing its ability to operate have all contributed to a powerful driving force to the development of large-scale chain retailing enterprises. Meanwhile, as the modern retailing market in Beijing has just started to develop and is with an enormous potential for market development, a speedy development just as what happened in the markets in Shanghai and eastern China several years ago is doomed to take place in the coming years.

Shanghai

Hua Lian GMS Shopping Center Company Limited ("Hualian GMS"), the Group's jointly controlled entity with headquarter in Shanghai, maintains steady growth with abundant cash flow. Although, Hualian GMS possess numerous high quality stores and outstanding brand name, the Company is aware of the keen competition brought by local and international competitors, high store rental and accelerating labour cost which has increased the risk of setting up new shores at present. In addition, as the stores opened in the northeastern PRC were adversely affected by the slower pace of economic development than expected and the long distance of logistic supply from the headquarter, the development was not as rapid as predicted. As a result, Hualian GMS has reviewed and streamlined all stores and closed down two stores which suffered from heavy losses in the first half of the year. Hualian GMS will continue to streamline stores with poor performance in the second half of the year and carry out adjustments that are optimal and reasonable. Although there might be some short-term lump sum losses, the Company is confident that the cash flow of the Hualian GMS could be increased soon and it has already laid the foundation for the coming major development in Shanghai and in eastern China.

Beijing

Focus mainly on chain convenience stores, the retailing business in Beijing was carried out by the Group's jointly controlled entities. The Company will conclude its experience further, enhance the quality of the stores and close down any stores with poor performance. The Company is currently in negotiations regarding the management of a chain system that comprises 30 quality stores of the same type. It is believed that the negotiation would be completed before the end of the year. While this takeover of operation will raise the leading position of the Company in Beijing tremendously, the operating cost will also be reduced to a large extent due to economies of scale. In the meantime, the Company intends to investigate and carry out preparation work on several famous brand name food production and distribution enterprises. Further diversification in food production and distribution, would lead to an enhancement of the unique competitive edge of the Company and increase our bands influence which would result in a tremendous cost reduction enjoyed by large scale bargaining.

Attracting New Business Partners

We are always actively seeking quality partners for business development, particularly certain stated owned retailing operators in the PRC about closer cooperation and business reorganization. However, no definite and discloseable agreements have been reached so far. Furthermore, the Board is also vigorously negotiating with some new professional overseas investment partners to optimize and expand the shareholders base of the Company as well as have their participation in operations for certain projects developed by the Company.

Future Outlook

Once the Group's interest in Hualian GMS increases so that the result of Hualian GMS is consolidated to the Group's accounts. The turnover will increase substantially to reflect the Group position as a successful retailing operator. In additions, it is believed that the favourable situation forged by the Group's new major businesses will bring more opportunities with high growth potential and munificent reward.

Financial Review

As at 30 June 2005, the Group's cash and bank balances amounted to approximately HK$107.0 million, of which approximately HK$37.1 million bank deposits were pledged to secure general banking facilities granted to the Group. Certain of the Group's properties with net book values of HK$12.5 million were also pledged to secure general banking facilities. With an objective to enhance the return on surplus cash on hand, the Group had invested for marketable securities and financial products. As at 30 June 2005, these investments were stated at their fair values in an amount of approximately HK$17.2 million.

The majority of the Group's revenues, expenses and cashflows are denominated in RMB and HK Dollars. Assets and liabilities of the Group are mostly denominated in RMB, HK Dollars and US Dollars. As such, the Group has limited foreign exchange exposure. As at 30 June 2005, the Group had no interest bearing borrowings and no financial instruments held for hedging purpose. The gearing ratio, representing total interest bearing borrowings as a percentage of total equity was 0% as at 30 June 2005 (as at 31 December 2004 : 0%). The Group's current ratio defined as total current assets to total current liabilities was 7.6 as at 30 June 2005 (as at 31 December 2004: 3.8).

Employees and Remuneration Policies

As at 30 June 2005, the Group had about 25 employees (as at 31 December 2004: 21), 15 of whom are based in Hong Kong while 10 are stationed in the PRC. The Group continued to recruit graduates from well-known universities and extensive working experience in the PRC. For the six months ended 30 June 2005, total staff costs were about HK$5.3 million. Competitive remuneration packages are structured to commensurate with individual responsibilities, qualification, experience and performance.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June 2005 (unaudited) HK$'000	2004 (restated) (unaudited) HK$'000
TURNOVER	3	**61,631**	106,228
Cost of sales		**(60,212)**	(103,855)
Gross profit		**1,419**	2,373
Other revenue	4	**1,150**	1,184
Administrative expenses		**(8,712)**	(6,727)
Changes in fair value on investment properties		**1,000**	–
Gain on disposal of interest in a jointly controlled entity		**–**	5,259
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	5	**(5,143)**	2,089
Finance costs		**(92)**	(9)
Share of result of jointly controlled entities		**(703)**	1,159
(LOSS)/PROFIT BEFORE TAXATION		**(5,938)**	3,239
Income tax expenses	6	**–**	–
(LOSS)/PROFIT FOR THE PERIOD		**(5,938)**	3,239
ATTRIBUTABLE TO:			
Equity holders of the Company		**(5,938)**	3,239
Minority interest		**–**	–
		(5,938)	3,239
(LOSS)/EARNINGS PER SHARE			
– Basic	7	**(HK0.58 cents)**	HK0.48 cents
– Diluted	7	**(HK0.58 cents)**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2005 (unaudited) HK$'000	31 December 2004 (restated) (audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,389**	3,166
Land lease prepayment		**1,286**	1,287
Investment property		**12,500**	11,500
Interests in an associate		**–**	–
Interests in jointly controlled entities		**40,122**	40,825
Goodwill		**1,695**	1,695
Long term unlisted investment		**–**	773
Available-for-sale investments		**773**	–
Golf club memberships		**2,761**	2,761
		62,526	62,007
CURRENT ASSETS			
Financial assets at fair value through profit or loss		**17,157**	–
Marketable securities		**–**	3,307
Inventories		**–**	–
Trade and bills receivables	8	**59**	34,622
Other receivables, deposits and prepayments		**21,408**	13,536
Pledged time deposits		**37,087**	36,768
Cash and cash equivalents		**69,876**	89,024
		145,587	177,257
CURRENT LIABILITIES			
Tax payable		**–**	–
Trade and bills payable	9	**–**	33,733
Other payables and accruals		**19,203**	12,768
		19,203	46,501
NET CURRENT ASSETS		**126,384**	130,756
NET ASSETS		**188,910**	192,763
CAPITAL AND RESERVES			
Share capital	10	**101,588**	101,588
Reserves		**87,322**	91,175
SHAREHOLDERS' FUNDS		**188,910**	192,763

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK$'000	Share premium HK$'000	Employee share-based compen-sation reserve HK$'000	Capital reserve HK$'000	Statutory public welfare reserve HK$'000	Exchange fluctuation reserve HK$'000	Statutory surplus reserve HK$'000	Accumu-lated losses HK$'000	Total HK$'000
At 31/12/2004, as previously reported	101,588	106,879	–	30,652	173	2,613	205	(49,455)	192,655
Effect of change in accounting policies	–	–	–	(30,652)	–	–	–	30,760	108
At 31/12/2004, and 01/01/2005 as restated	101,588	106,879	–	–	173	2,613	205	(18,695)	192,763
Loss for the period	–	–	–	–	–	–	–	(5,938)	(5,938)
Provided for the period	–	–	2,085	–	–	–	–	–	2,085
At 30/6/2005	**101,588**	**106,879**	**2,085**	**–**	**173**	**2,613**	**205**	**(24,633)**	**188,910**
At 31/12/2003	67,725	108,663	–	30,652	173	2,613	205	(61,297)	148,734
Profit for the period	–	–	–	–	–	–	–	3,239	3,239
At 30/6/2004	67,725	108,663	–	30,652	173	2,613	205	(58,058)	151,973

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2005	2004
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Net cash (outflow)/inflow from operating activities	**(4,780)**	9,398
Net cash outflow from investing activities	**(14,049)**	(1,007)
Net cash outflow from financing activities	**(319)**	(195)
(Decrease)/increase in cash and cash equivalents	**(19,148)**	8,196
Cash and cash equivalents at 1 January	**89,024**	55,187
Cash and cash equivalents at 30 June	**69,876**	63,383
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	**3,779**	28,178
Time deposits	**66,097**	35,205
	69,876	63,383

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and the Hong Kong Accounting Standard ("HKASs") 34 "Interim Financial Reporting" and other relevant HKASs and Interpretations the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The interim accounts were not audited but have been reviewed by the Audit Committee.

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention except for certain financial instruments and investment properties, which are measured at fair values.

The accounting policies and basis of preparation adopted in these condensed interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new HKFRSs, HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Business combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life. The Group has applied the relevant transitional provision in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. The carrying amount of negative goodwill previously recognised is derecognised and credited to retained profits. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. The carrying amount of accumulated amortisation of approximately HK$1,131,000 was eliminated with a corresponding decrease in goodwill as at 1 January 2005. The carrying amount of the negative goodwill remained in associated capital reserve on the consolidated balance sheet as at 1 January 2005 of HK$30,652,000 was derecognised by way of a corresponding adjustment to opening retained profits. Comparative figures for 2004 have not been restated.

Interests in jointly controlled entities

In previous periods, interests in jointly controlled entities were accounted for using the equity method. In current period, the Group has applied HKAS 31 "Interests in Joint Ventures" which allows entity to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue applying equity method to account for its interests in jointly controlled entities. As a result, there has been no change in accounting method in respect of the Group's interests in jointly controlled entities. However, the Group will review the situation if the Group considers using proportionate consolidation would better reflect the substance and economic reality of the Group's interest in jointly controlled entities.

Share-based Payment

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is relating to the expense of the fair value of directors' and employees' share options of the Company granted under the Share Option Scheme (the "New Scheme") adopted on 7 June 2004. Prior to this, the provision of share option to employees did not result in a charge to the profit and loss account.

Following the adoption of HKFRS 2, the costs on granting employee share options under the New Scheme are calculated with reference to the fair value of share options at the date of grant, adjusted to take into account the terms and conditions upon which the share options are granted, and are amortised over the relevant vesting periods to the income statement.

The Group has applied HKFRS 2 to shares granted on or after 1 January, 2005. In relation to shares granted before 1 January, 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November, 2002. The Group had no share options granted after 7 November, 2002 and had not yet vested on 1 January, 2005, and accordingly, no retrospective restatement is required.

Under the adoption of HKFRS 2, an amount of approximately HK$2,085,000 (nil for the six months ended 30 June, 2004) representing the estimated fair value of share options granted in January & February 2005 using American Options Pricing Model (Baron-Aolesi and Whaley) under the New Scheme was charged to the income statement during the period, with an corresponding credit to the equity.

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarized below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, investments of the Group were classified into long term investments and short term investments, which were stated in the balance sheet at cost less any impairment losses and at fair value, respectively, and any impairment losses on long term investments and changes in fair value of the short term investments were recognised in the profit and loss account in the period in which they arise.

In accordance with the provisions of HKAS 39 from 1 January 2005 onwards, the Group classifies and measures its debt and equity securities.

Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognized in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

As a result of the adoption of HKAS 39, all the investments are now stated at fair value in the balance sheet, except for certain available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any impairment losses. In addition, all the investments as at 31 December 2004 that should be measured at fair value on adoption of HKAS 39 should be remeasured as at 1 January 2005 and any adjustment of the previous carrying amount should be recognised as an adjustment of the balance of retained profits as at 1 January 2005.

The effect of the changes in accounting policies on these financial statements as a result of the adoption of HKAS 32 and HKAS 39 is summarised below:

- all long term investments of the Group and the Company as at 31 December 2004 were redesignated into available-for-sale financial assets on 1 January 2005. The aggregate differences between the respective carrying value of each investment as at 31 December 2004 and the respective fair value as at 1 January 2005 is insignificant and hence, no adjustment has been made against the retained profits as at 1 January 2005.

- all short term investments of the Group and the Company as at 31 December 2004 were redesignated into financial assets at fair value through profit or loss on 1 January 2005. There is no effect on remeasurement as the accounting policy on measurement of the Group's short term investments as at 31 December 2004 is the same as that for the financial assets at fair value through profit or loss.

Investment property

The adoption of HKAS 40 has resulted in a change in accounting policy for investment property. Prior to this, changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. After the adoption of HKAS 40, as the Group has elected to use the fair value model to account for its investments properties, any changes in value of investment property are dealt with in the profit and loss account and there should be no revaluation reserve available for offsetting against revaluation deficits. A valuation of investment properties was carried out at 30 June 2005, resulting in gains arising from fair value change of approximately HK$1 million.

Lease

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at cost less accumulated depreciation and any accumulated impairment losses. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease whereas the leasehold building is stated at cost less accumulated depreciation and any accumulated impairment losses. The change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. Apart from certain presentational change with comparative restated, this change in accounting policy does not have any material effect on the accounts.

Summary of the effects of the changes in accounting policies

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 & 1 January 2005:

	As at 31 December 2004 (originally stated)	Effect of HKAS17	As at 31 December 2004 (restated)	Effect of FRS3	As at 1 January 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	4,905	(1,298)	3,607		3,607
Accumulated depreciation	(1,407)	119	(1,288)		(1,288)
Land lease prepayment	–	1,287	1,287		1,287
Goodwill	2,826			(1,131)	1,695
Accumulated amortization of goodwill	(1,131)			1,131	–
Total effect on assets and liabilities	5,193	108		–	5,301
Capital reserve	30,652			(30,652)	–
Retained profits	(49,455)	108		30,652	(18,695)
Total effect on equity	(18,803)	108		–	(18,695)

The effect of the application of the new HKFRSs on condensed consolidated income statement:

	For six months ended 30 June 2005				For six months ended 30 June 2004			
	FRS2	HKAS40	FRS3	Total	FRS2	HKAS40	FRS3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Increase/(decrease) in operating expenses	2,085	–	(282)	1,803	–	–	–	–
Increase/(decrease) in profit	(2,085)	1,000	282	(803)	–	–	–	–

3. Segmental information

The Group is principally engaged in the trading of chemical fertilizers and property investment. An analysis of the Group's turnover and contribution to (loss)/profit from operating activities by business and geographical segments respectively are as follows:

a) Business segments

An analysis of the Group's performance by business segments, namely 'chemical fertiliser', 'property investment' and 'corporate and others' is as follows:

Six months ended 30 June

	Chemical fertiliser		Property investment		Corporate and others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**61,488**	105,941	**13**	153	**130**	134	**61,631**	106,228
Other revenue	**–**	–	**–**	–	**29**	–	**29**	–
Total	**61,488**	105,941	**13**	153	**159**	134	**61,660**	106,228
Segment results	**838**	1,687	**(409)**	124	**(7,693)**	(6,167)	**(7,264)**	(4,356)
Gain on disposal of – a jointly controlled entity							**–**	5,259
Changes in fair value on investment properties							**1,000**	–
Interest and dividend income and unallocated gains							**1,121**	1,186
Unallocated expenses							**–**	–
(Loss)/profit from operating activities							**(5,143)**	2,089
Finance costs							**(92)**	(9)
Share of results of jointly controlled entities							**(703)**	1,159
(Loss)/profit from ordinary activities before taxation							**(5,938)**	3,239
Income tax expenses							**–**	–
Net (loss)/profit after taxation							**(5,938)**	3,239

b) *Geographical segments*

	Turnover		Contribution to (loss)/profit from operating activities	
	Six months ended 30 June			
	2005	2004	**2005**	2004
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**133**	273	**(7,891)**	(6,011)
PRC	**61,498**	105,955	**627**	1,655
	61,631	106,228	**(7,264)**	(4,356)
Gain on disposal of interest in a jointly controlled entity			**–**	5,259
Change in fair value on investment properties			**1,000**	–
Interest and dividend income and unallocated gains			**1,121**	1,186
(Loss)/profit from operating activities			**(5,143)**	2,089

4. Other revenue

	Six months ended 30 June	
	2005	2004
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Other revenue include the following:		
Interest income	**783**	258
Dividend income from investments at fair value through profit or loss/available-for-sales investments	**388**	11
Gain on disposal of investments at fair value through profit or loss	**419**	856
Change in fair values of investments at fair value through profit or loss, net	**(532)**	–
Exchange gains, net	**64**	43
Other	**28**	16
	1,150	1,184

5. (Loss)/profit from operating activities

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

	Six months ended 30 June	
	2005	2004
		(restated)
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Depreciation	**214**	268
Amortisation of goodwill	**–**	283
Operating lease rentals	**899**	863
Staff cost (including related expenses for share option schemes)	**5,299**	3,020
Gain on disposal of investments at fair value through profit or loss	**(419)**	(856)
Change in fair value of investments at fair value through profit or loss, net	**532**	–
Change in fair value of investment properties	**(1,000)**	–
Loss on disposal of fixed assets	**18**	–
Interest income	**(783)**	(258)
Dividend income from investments at fair value through profit or loss/available-for-sales investments	**(388)**	(11)
Exchange gains, net	**(64)**	(43)
Gain on disposal of interest in a jointly controlled entity	**–**	(5,259)

6. Income tax expenses

	Six months ended 30 June	
	2005	2004
		(restated)
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current Taxation		
Hong Kong profits tax	**–**	–
Share of PRC tax	**–**	–
Tax charge for the period	**–**	–

No Hong Kong profits tax has been provided for in the financial statements as the Group has no assessable profits for the period (2004: Nil).

The share of profit less losses of jointly controlled and associated companies are shown after tax in accordance with HKAS1. Previously, tax had been shown separately.

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

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

7. (Loss)/earnings per share

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

	Six months ended 30 June	
	2005	2004
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
(Loss)/profit for the purposes of basic and diluted earnings per share	**(5,938)**	3,239

	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,015,877,336**	677,251,557
Effect of dilutive potential ordinary shares:		
Share options	**3,977,088**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,019,854,424**	677,251,557

Note: There have been no potential dilutive ordinary shares in existence during the six months ended 30 June 2004.

8. Trade and bills receivables

The ageing analysis of trade and bills receivables is as follows:

	30 June 2005	31 December 2004
	(unaudited)	(audited)
	HK$'000	*HK$'000*
Outstanding balances with ages		
Current	**–**	–
1 to 3 months overdue	**–**	34,552
More than 3 months overdue but less than 12 months overdue	**–**	70
Overdue more than 1 year	**59**	–
	59	34,622

9. Trade and bills payables

The aging of the Group's trade and bills payable is analysed as follows:

	30 June 2005 (unaudited) *HK$'000*	31 December 2004 (audited) *HK$'000*
Outstanding balances with ages:		
Due within 1 month or on demand	**–**	–
Due after 1 month but within 3 months	**–**	33,733
Due after 3 months but within 6 months	**–**	–
	–	33,733

10. Share Capital

	30 June 2005 (unaudited)		31 December 2004 (audited)	
	No. of shares	***HK$'000***	*No. of shares*	*HK$'000*
Authorised				
Ordinary share of HK$0.10 each	**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid				
Ordinary share of HK$0.10 each	**1,015,877,336**	**101,588**	1,015,877,336	101,588

11. Operating lease arrangements

(a) As lessor

The Group leases its investment property and golf club membership under operating lease arrangements, with leases negotiated for terms ranging from one year for investment property and one to two years for golf club membership. The terms of the leases generally also require the lessees to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

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

	30 June 2005 (unaudited) *HK$'000*	31 December 2004 (audited) *HK$'000*
Within one year	**77**	58
In the second to fifth years, inclusive	**–**	–
	77	58

(b) As lessee

The Group leases certain of its office properties and director's quarter under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years, and those for director's quarter for a term of 2 years.

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

	30 June 2005 (unaudited) ***HK$'000***	31 December 2004 (audited) *HK$'000*
Within one year	**1,748**	1,747
In the second to fifth years, inclusive	**316**	1,182
After the fifth years	**29**	38
	2,093	2,967

12. Related party transactions

		Six months ended 30 June	
	Notes	**2005 (unaudited)** ***HK$'000***	2004 (unaudited) *HK$'000*
Rental expenses to company controlled by directors	*(i)*	**498**	498
Rental income from a jointly controlled entity	*(ii)*	**78**	78

Notes:

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

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

13. Approval of the interim financial report

The condensed interim financial statements were approved and authorised for issue by the Board of the Company on 25 August 2005.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 2005, 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 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 32,282,000 ordinary shares and 1,000,000 underlying shares *(Note 2)* and interest in controlled corporation of 86,400,000 ordinary shares *(Note 3)*	577,726,240	2,000,000	57.06%
Lo Wan	Beneficial owner of 32,282,000 ordinary shares and 1,000,000 underlying shares, family interest of 545,444,240 ordinary shares and 1,000,000 underlying shares *(Note 4)*	577,726,240	2,000,000	57.06%
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 32,282,000 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 the SFO as at 30 June 2005.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the headings "Directors' interests in share capital" above and "Share option" 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 30 June 2005, the following company and persons 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 the SFO:

Long positions in shares and underlying shares of the Company

Name	Capacity	Number of 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 32,282,000 ordinary shares and 1,000,000 underlying shares and interest in controlled corporation of 86,400,000 ordinary shares	577,726,240	2,000,000	57.06%
Lo Wan	Beneficial owner of 32,282,000 ordinary shares and 1,000,000 underlying shares, family interest of 545,444,240 ordinary shares and 1,000,000 underlying shares	577,726,240	2,000,000	57.06%
Arbalice Holdings Limited *(Note)*	Beneficial owner	86,400,000		8.50%

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, underlying shares or debentures of the Company that was required to be recorded under Section 336 of the SFO.

SHARE OPTION

The Company adopted a new share option scheme on 7 June 2004 (the "New Scheme") whereby the directors of the Company are authorised, at their discretion, to invite any eligible employee (including executive directors), any non-executive director (including independent non-executive directors), any shareholder of any member of the Group, any supplier and customer of the Group and any technical, financial and legal professional adviser of the Group, to take up options to subscribe for shares of the Company.

During the period under review, the Company has granted 67,500,000 share options to certain directors and employees. Details of the share options granted under the New Scheme are as follows:

As at 30 June 2005, the executive, non-executive directors and employees of the Group have the following interests under the New Scheme.

Director	Date of offer	Exercise price	Outstanding at 1.1.2005	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2005	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

INVESTMENTS AND DISPOSALS

There were no material acquisitions and disposals of subsidiaries and associated companies during the period, except K.P.I. (BVI) Retail Management Company Limited ("KPIRM"), a jointly controlled entity of the Company, has passed a resolution to transfer all of its equity in K.P.I. Beatrice Holdings Limited ("KPIBH") to TLC Beatrice (China) Limited or its designated trustee or affiliate for a consideration of US$1. As a result of such transfer, KPIRM in effect also disposed all its interest in Guangzhou Yue Xiu Beatrice Convenience Chain Store Co., Ltd. ("Guangzhou Yue Xiu"), Guangzhou K.P.I. Commercial Company Limited and Lantis Trading Corporation which are held indirectly by KPIRM through KPIBH. Upon completion of such transfer, KPIRM will no longer hold any equity interest in KPIBH and will be exempted from all past and future liabilities which is related to Guangzhou Yue Xiu. The disposal constitutes no material effect to the Group's net profit.

The Board is considering increase the Group's interest in GMS but no firm plans have been formed.

CONTINGENT LIABILITIES

As at 30 June 2005, the Group has no significant contingent liabilities.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months period ended 30 June 2005 (2004: Nil).

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2005.

CORPORATE GOVERNANCE

The Company has compiled with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005, except for code provisions A.2.1, A.5.4, B.1.1, C.3.3 and E.1.2:

1. Code provision A.2.1

Mr Cheung Siu Lam, acts as chairman of the Company, is also responsible for overseeing the general operations of the Group. The Company does not at present have any officer with the title "chief executive officer". This constitutes a deviation from code provision A.2.1 of the Code.

2. Code provision A.5.4

There are currently no written guidelines issued by the Board for relevant employees is respect of their dealings in the securities of the Company.

3. Code provision B.1.1

The Company did not establish a remuneration committee with specific terms of reference during the six months ended 30 June 2005. It is the intention of the Board to establish a remuneration committee in the second half of the year.

4. Code provision C.3.3

The terms of reference adopted by the audit committee on 28 September 2004 are not in line with the Code.

The amended terms of reference of the audit committee, revised in accordance with the Code provision C.3.3, were considered and approved by the board of the Company on 25 August 2005.

5. Code provision E.1.2

The chairman of the Board, Mr Cheung Siu Lam did not attend the annual general meeting held on 24 May 2005 as he was engaging some business negotiations in the PRC. However, other executive directors and chairman of audit committee were all present in that annual general meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own Code of Conduct, which laid down terms no less exacting than those set out in the Appendix 10 of the Listing Rules, regarding directors' transactions in securities of the Company. All directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2005.

AUDIT COMMITTEE

The Audit Committee, which comprises all independent non-executive directors, has reviewed the interim results for six months ended 30 June 2005.

By Order of the Board
Cheung Siu Lam
Chairman

Hong Kong, 25 August 2005