

Chairman's Statement

I am pleased to announce that K.P.I. Company Limited (the "Company", together with its subsidiaries collectively referred to as the "Group") achieved a remarkable result during the year ended 31 December 2004.

The audited consolidated profit attributable to shareholders of the Group for the year ended 31 December 2004 amounted to approximately HK\$11,842,000 (2003: 10,337,000). Turnover for the year ended 31 December 2004 was approximately HK\$141.0 million (2003: 296.2 million), representing a decrease of approximately 52.4%.

Retailing Business

The Group has realigned its business direction and allocated more resources on retailing, food supply chain and modern logistic businesses. During the year under review, the total number of stores operated by the Hua Lian GMS Shopping Center Company Limited ("Hualian GMS"), has increased to 25, covering Shanghai, Jiangsu, Zhejiang, Anhui, Shenyang, Jilin and Harbin, with total operation areas over 200,000 square meters. The success of the investment in Hualian GMS has rewarded our prior years effort on business transformation, laying a solid foundation upon which the Group will build its retailing conglomerate. Over the past 7 years, GMS has grown rapidly into the most remarkable force in the Shanghai supermarket business and become a reliable brand to our customers in China.



Hualian GMS was jointly established by the Group through its jointly-controlled entities with Hualin Supermarket Company Limited. The major shareholder of Hualin Supermarket Company Limited is Shanghai Bailian Group ("Bailian") which is the largest retail chain conglomerate in the PRC in term of sales volume with businesses in department stores, hypermarkets, supermarkets, convenience stores and other retail businesses. With the support of central government, Bailian will undergo several phases of reorganization ("Bailian Reorganization")

to meet the competition brought by other international chain store operators. The Directors believes that there is a potential opportunity to increase the shareholding of Hualian GMS due to Bailian Reorganization. However, there is still uncertainty as to the exact timing and no negotiations or arrangements have been made between the Group and Bailian at the moment.



Hi-24 convenience store

Chairman's Statement (con't)

Regarding the Group's convenience store project, under its jointly-controlled entities, the number of outlets has been increased to about 80 stores in central China. The Group considers the growth potential of convenience store operation is high and will actively seek for a further increase in the investment scale and shareholding proportion in its convenience store project as permitted by the relevant foreign investment policies and laws in the PRC.

Food Supply Chain and Modern Logistic Business

The Group has targeted on several outstanding state-owned famous brand name food production and distribution enterprises with long history in the PRC but the discussion is only at the initial stage. It is anticipated that the proposed investment and acquisition would be completed in 2005. Further announcement will be made in the event that the acquisition is finalized. The investment will further consolidate the Group's vertical integration on supply chain and logistic distribution. In no doubt, the synergy effect would soon be realized and posting remarkable performance in the coming years. The Group will continue to explore value added investment opportunities to improve the value of our shareholders.

Fertiliser Business

In the area of fertiliser business, the sales of chemical fertiliser in PRC has dropped by 52.4% to HKD140.5 million as compared with 295.5 million in 2003. The Group maintained a stable operation on fertiliser trading business and focusing the development of environmental-friendly organic fertiliser business. Additional resources will be allocated to related projects when the return on investment becomes more encouraging.

Conclusion

It is believed that the economic development of China will maintain at a healthy growth rate and the Group is expected to benefit from improved purchasing power of people in the PRC. Although the competition in the retail market is seen be intensified since China's accession to WTO, the potential is still enormous. Once the operating synergies are achieved and consolidation of business is completed, the Group will become a conglomerate in modern logistic and retailing business and enjoying the advantages of economies of scale and brand recognition. Our "step by step" expansion strategy ensure the Group to secure a firm foothold and accelerate rapidly to enjoy the untapped business opportunities and potential brought by The 2008 Olympic Games in Beijing.

Chairman's Statement (con't)

Appreciation

On behalf of the Board, I would like to express my sincere appreciation to all management and staff for their enthusiastic support and dedicated efforts.

Cheung Siu Lam

Chairman

Hong Kong, 18 April 2005