



It is my pleasure to present the annual result of K.P.I. Company Limited (the "Company", together with its subsidiaries collectively referred as the "Group") for the year ended 31 December 2005. Turnover for the year ended 31 December 2005 was approximately HK\$61,816,000, representing a decrease of 56.1% as compared to 2004 (2004: HK\$141.0 million). Net loss for the year was approximately HK\$23,251,000 (2004 (restated): HK\$11,822,000).

OPERATING REVIEW

The year 2005 is a challenging year for the Company. The Group has increased its participation in general administration in certain retail projects in the PRC operated by its jointly controlled entities. However, due to the intense competition in hypermarket/supermarket industry in the PRC, Hua Lian GMS Shopping Center Company Limited ("Hualian GMS"), a PRC hypermarket operator established by the Group's jointly controlled entities, has closed down some poorly performed outlets in northeastern PRC. As a result, the Group's share of result from Hualian GMS in relation to the non recurring lump sum loss amounting to approximately HK\$10.0 million. The directors are confident that the retailing industry in the PRC will maintain a steady growth and as a leading hypermarket operator in the region, Hualian GMS will show a significant improvement in 2006.

The Group will withdraw from large transactions of fertilizer trading and realigned its business direction and resources to retailing business. It is the intention of the Company to solicit certain good quality retailing business partners in the PRC to consolidate market share and increase its strategic investments in retail related businesses.

INTERNAL CONTROL

The Group continues to implement strict financial and cost control. Annual budgets are formulated for the Board's approval and strict compliance are observed. The Group has implement a performance management system to conduct regular reviews on its investment in the PRC annually to ensure all risks arising from the Group's business are under timely and effective supervision. The Group also considers engaging external advisors for providing internal control programmes when necessary.

OUTLOOK

It is believed that the economic development of China will maintain a steady growth and retailing business remains a high growth arena, though intense competition would speed up industry consolidation. The Company will formulate business plans pursuant to the ever changing business environment which will place the Group in a good position to seize any new development opportunities ahead and to achieve a better return for our shareholders. The Board maintains a cautiously optimistic outlook for 2006.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude towards our shareholders, business partners for their long term and enthusiastic support and all our staff for their devotion and dedicated efforts made during the year.

Cheung Siu Lam

Chairman and Chief Executive Officer

Hong Kong, 20 April 2006