The Board of Directors (the "Board") of K.P.I. Company Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005.

OVERVIEW

During the year under review, the Group recorded a turnover of approximately HK$61,816,000, a decrease of 56.1% as compared with the corresponding figure of previous year. Loss for the year was HK$23,251,000. The Group continued to implement strict financial and cost control.

FINANCIAL HIGHLIGHT

	2005	2004
	HK'000	HK'000
		(restated)
Turnover	**61,816**	140,953
Operating (loss)/profit	**(11,527)**	8,273
(Loss)/profit for the year	**(23,251)**	11,822
Basic (loss)/earnings per share	**(HK2.29 cents)**	HK1.36 cents

BUSINESS REVIEW

Trading Business – Direction

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

Retailing Business – General Environment

It is generally believed that economic growth in the PRC will maintain an annual growth rate of 8.0% in 2006, despite various government measures to regulate the overheated economy. As economic growth remains strong and the momentum of consumption continues to grow steadily, the escalating purchasing power within the country will constitute a powerful driving force for the growth of PRC retail business. On the other hand, competition in the retail market will be becoming more intense when foreign investors are allowed to enter the market without restriction. Growth by frequent mergers and acquisitions and cross regional expansion will be a trend in market transformation and consolidation. Brand building, cost control, product selection and quality assurance, network deployment, supply chain management, customer differentiation as well as efficient systems management will contribute to the success of retail operators.

Retailing Business – Shanghai

During the year, the Group's jointly controlled entity, Hualian GMS, conducted a comprehensive review on individual outlet performance and seven poorly performed outlets were closed down. The closed-down stores were mainly located in northeastern PRC where economic development and consumption demand were slower than expected. As a result, Hualian GMS has experienced a short-term lump sum loss of approximately RMB51.1 million during the year. The management of Hualian GMS will continue to adopt a prudent approach on store expansion in Shanghai and eastern China and conduct operational review more regularly to meet the ever-changing environment. The management of Hualian GMS also readjusts the strategy of product mix and regional penetration, and places more emphasis on overhead control, supply chain development and management efficiency. With numerous high quality stores and an outstanding brand name in Shanghai, Hualian GMS is the leading hypermarket operator in the region. We are confident that the operating profit of Hualian GMS for 2006 will post a significant improvement.

The Group has been conducting active negotiations with other shareholders of Hualian GMS to discuss the possibility of increase the Group's equity stake in Hualian GMS. No material terms in relation to the proposed acquisition have been agreed upon. The Group will keep the market informed by way of announcement in compliance with the requirements of the Listing Rules as and when any binding agreement in relation to the acquisition has been signed.

Retailing Business – Beijing

The Group's convenience store project, which was held by the Group's jointly controlled entities, took over the management of another chain of stores comprising about 30 quality stores in September 2005. As a result, operating costs have been reduced to a large extent and we believe that break-even would soon be reached. Without doubt, the 2008 Olympic Games in Beijing will further boost economic growth and consumption in Beijing. As of December 2005, the number of outlets reached approximately 110 stores.

To prepare for the opportunities ahead, more outlets will be established by both organic growth and selective acquisitions of domestic chains. Several factors were carefully considered when the expansion strategy was executed such as:

- the identification and securing of prime store locations;
- the control of rental and staff costs at a reasonable level;
- the intensity of competition in areas where new stores are to be located;
- the ability to change product mix to meet the demands of different consumer groups;
- the ability to reduce purchasing costs and distribution costs.

Market concentration is important to meet various demands from different consumer groups and to achieve economies of scale and brand awareness. In addition, an effective pricing policy complements effective product strategy to enhance the competitiveness of our convenience store business.

Further diversification in food production and distribution in Beijing would lead to an enhancement of the unique competitive edge of the Company. During the year, the Board has targeted several suitable state-owned brand name food production and distribution enterprises and preliminary negotiations have been conducted.

Future Outlook

The Group has aligned its core business with retailing and has established good relationship with certain stated owned retailing operators in the PRC. Closer cooperation with these business partners is expected when opportunities arise. Furthermore, the Board is vigorously negotiating with overseas professional investment partners to optimize and expand the shareholder base of the Company. We are continuing our efforts to increase shareholders' return and to enhance share price performance by maximizing investment returns.

FINANCIAL REVIEW

During the period under review, turnover of the Group was approximately HK$61,816,000, representing a decrease of approximately 56.1% as compared with the corresponding figure of last year. Loss for the year was approximately HK$23.3 million. This disappointing result was largely attributable to share of loss from Hualian GMS amounting to approximately HK$10.0 million, impairment loss on goodwill of a subsidiary amounting to HK$1.7 million and additional staff costs incurred on granting employee share options amounting to approximately HK$4.5 million pursuant to the adoption of HKFRS 2. Since the loss incurred by Hualian GMS is non-recurring, it is expected that the performance of Hualian GMS will attain encouraging improvement after the reorganisation exercises. The Board believes Hualian GMS will constitute a significant source of revenue and profit to the Group in future. It is the intention of the Board to withdraw from large transactions of fertilizer trading and allocate more resources to the retailing business.

Assets, Liabilities and Liquidity

As of 31 December 2005, the Group had net assets of approximately HK$173.7 million. Non current assets were mainly comprised property, plant and equipment and land lease prepayment of approximately HK$4.1 million, investment property of approximately HK$12.5 million, interests in jointly controlled entities of approximately HK$34.5 million and other non current assets of approximately HK$3.5 million. Current assets were mainly comprised pledged time deposits and cash and cash equivalents of approximately HK$90.0 million, deposits and prepayments of approximately HK$25.7 million and financial assets at fair value through profit or loss of approximately HK$16.4 million. Current liabilities mainly comprised other payables and accruals of approximately HK$11.8 million.

During the year, the Company has not issued any additional share.

Pledge of Assets

Approximately HK$37.9 million bank deposits and a property with net book value of HK$12.5 million were pledged to secure general banking facilities granted to the Group.

Foreign Currency Exposure

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. The Group has not entered into any agreements or purchased of any financial instruments to hedge the foreign exchange risks of the Group. In July 2005, the People's Bank of China announced that the RMB exchange rate mechanism would be adjusted to a managed floating exchange rate system and that the exchange rate of RMB to US Dollars has been revalued upwards during the year. The Group believes that the revaluation of RMB will not have any adverse effect on the Group's operations.

Ratio

As of 31 December 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 of 31 December 2005 (2004: 0%). The Group's current ratio defined as total current assets to total current liabilities was 8.3 as of 31 December 2005 (2004 (restated): 3.2).

	2005 **HK$ million**	2004 HK$ million (restated)
Cash	**90.0**	125.8
Bank borrowings	**0**	0
Gearing ratio	**0**	0
Current ratio	**8.3**	3.2

Administrative expenses for the Group in 2005 were approximately HK$20.2 million, representing an increase of 47.1% compared to that of previous year, due to the additional staff costs incurred on granting employee share options under the adoption of HKFRS 2.

HUMAN RESOURCES MANAGEMENT

As of 31 December 2005, the Group, excluding associated companies and jointly controlled entities, had a total of 19 employees (2004: 21), 15 of whom are based in Hong Kong while 4 are stationed in the PRC. Total staff costs for the year were approximately HK$12.3 million. Competitive remuneration packages are structured to commensurate with individual responsibilities, qualification, experience and performance, which are regularly reviewed by the management. The Company has adopted a share option scheme on 7 June 2004 whereby employees of the Group, including Directors of the Group, may be granted options to acquire shares in the Company.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year under review, the Group has no material acquisitions and disposals.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had no significant contingent liabilities.