K.P.I. COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 605)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2007

FINANCIAL HIGHLIGHTS

	For the year ended 31 December 2007	2006	Percentage change %
Turnover *(HK$'million)*	**775.0**	431.0	79.8
Gross profit *(HK$'million)*	**76.0**	42.3	79.7
Profit from operations *(HK$'million)*	**16.8**	6.1	175.4
Profit attributable to equity holders of the Company *(HK$'million)*	**6.3**	2.3	173.9
Basic earnings per share *(HK cents)*	**0.476**	0.228	108.8
Cash and cash equivalents *(HK$'million)*	**252.3**	138.8	81.8
Bank loans *(HK$'million)*	**63.8**	76.0	(16.1)
Current ratio *(Note: 1)*	**1.86**	1.54	20.8
Gearing ratio *(%) (Note: 2)*	**16.5**	88.0	(81.3)

Notes:

1. The calculation of current ratio (times) is based on total current assets divided by total current liabilities as at 31 December.

2. The calculation of gearing ratio (%) is based on total borrowing divided by total equity as at 31 December.

The board of directors (the "Board") of K.P.I. Company Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

		2007	2006
	Note	***HK$'000***	*HK$'000*
Turnover	*3*	**775,044**	431,037
Cost of sales		**(699,072)**	(388,730)
Gross profit		**75,972**	42,307
Other revenue	*3*	**102,556**	74,046
Recognition of negative goodwill on acquisition		**–**	10,121
Selling and distribution expenses		**(41,573)**	(26,253)
Administrative expenses		**(120,130)**	(82,802)
Other operating expenses		**–**	(1,916)
Changes in fair value on investment property		**–**	700
Loss on disposal of jointly controlled entities		**–**	(10,121)
Profit from operations	*4*	**16,825**	6,082
Finance costs	*5*	**(8,592)**	(5,457)
Non-operating income		**–**	2,013
Non-operating expenses		**–**	(2,714)
Profit/(loss) before taxation		**8,233**	(76)
Income tax	*6*	**(1,916)**	2,391
Profit for the year		**6,317**	2,315

	Note	**2007**	2006
	Note	***HK$'000***	*HK$'000*
Attributable to:			
Equity holders of the Company		**6,330**	2,316
Minority interest		**(13)**	(1)
		6,317	2,315
Dividend	*7*	**–**	–
Earnings per share	*8*		
– Basic		**HK0.476 cents**	HK0.228 cents
– Diluted		**HK0.473 cents**	HK0.223 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	**2007**	2006
		HK$'000	*HK$'000*
			(restated)
Non-current assets			
Property, plant and equipment		**27,866**	38,314
Lease premium for land		**905**	2,027
Investment property		**–**	13,200
Intangible assets		**55,664**	58,016
Interests in associates		**2,112**	2,112
Goodwill		**13,493**	13,493
Amount due from a joint venture partner		**2,928**	2,928
Available-for-sale investments		**3,534**	3,534
		106,502	133,624
Current assets			
Lease premium for land		**23**	44
Financial assets at fair value through profit or loss		**29,773**	13,907
Inventories		**68,774**	57,992
Other receivables, deposits and prepayments		**186,448**	122,525
Loan and interest receivables		**64,350**	61,659
Tax receivables		**567**	–
Pledged cash and cash equivalents		**6,372**	26,587
Cash and cash equivalents		**252,288**	138,847
		608,595	421,561
Current liabilities			
Tax payable		**1,236**	85
Trade payables	*9*	**167,860**	142,136
Other payables and accruals		**94,439**	55,061
Short term bank loans – unsecured		**63,830**	76,000
		327,365	273,282
Net current assets		**281,230**	148,279
Total assets less current liabilities		**387,732**	281,903
Non-current liabilities			
Convertible note		**–**	(91,521)
NET ASSETS		**387,732**	190,382

	Note	2007 HK$'000	2006 HK$'000 (restated)
Capital and reserves			
Share capital		**159,590**	101,588
Reserves		**218,432**	79,071
Total equity attributable to equity holders of the Company		**378,022**	180,659
Minority interests		**9,710**	9,723
TOTAL EQUITY		**387,732**	190,382

NOTES:

1. BASIS OF PREPARATION AND 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the requirements of the Hong Kong Companies Ordinance.

b) *Basis of Preparation*

The consolidated financial statements of the Company have been prepared in accordance with HKFRSs and under the historical cost convention, except for the 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.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial Instruments: Disclosure and presentation.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 2007 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 Group'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
HKAS 1 (Revised)	Presentation of Financial Statements	1 January 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations	1 January 2009
HKFRS 3 (Revised)	Business Combinations	1 July 2009
HKFRS 8	Operating Segments	1 January 2009
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) – Int 12	Service Concession Arrangements	1 January 2008
HK(IFRIC) – Int 13	Customer Loyalty Programmes	1 July 2008
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

2. SEGMENT INFORMATION

a) Business segments

An analysis of the group's performance by business segments, namely 'trading of securities and property investment' and 'supermarket chain operations' is as follows:

	Trading of securities and property investment		**Supermarket chain operations**		**Consolidated**	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)				(restated)
Segment revenue:						
Turnover	**108,756**	38,624	**666,288**	392,413	**775,044**	431,037
Other revenue	**13,524**	20,997	**89,032**	53,042	**102,556**	74,039
Total	**122,280**	59,621	**755,320**	445,455	**877,600**	505,076
Segment results	**1,676**	4,333	**15,149**	341	**16,825**	4,674
Gain/(loss) on disposal of:						
– jointly controlled entities					**–**	(10,121)
– subsidiary					**–**	7
Increase in fair value of investment properties					**–**	700
Recognition of negative goodwill on acquisition					**–**	10,121
Profit from operations					**16,825**	5,381
Finance costs					**(8,592)**	(5,457)
Profit/(loss) before taxation					**8,233**	(76)
Income tax					**(1,916)**	2,391
Profit for the year					**6,317**	2,315

	Trading of securities and property investment		Supermarket chain operations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**354,647**	262,458	**358,338**	290,615	**712,985**	553,073
Interests in associates	**2,112**	2,112	**–**	–	**2,112**	2,112
Total assets	**356,759**	264,570	**358,338**	290,615	**715,097**	555,185
Segment liabilities	**(3,337)**	(98,698)	**(324,028)**	(266,105)	**(327,365)**	(364,803)
Other segment information:						
Depreciation of property, plant and equipment	**539**	435	**15,003**	10,106	**15,542**	10,541
Amortisation of land lease premium	**23**	44	**–**	–	**23**	44
Amortisation of intangible assets	**2,352**	784	**–**	–	**2,352**	784
Impairment losses recognised in income statement	**–**	1,815	**–**	–	**–**	1,815
Other non-cash expenses:						
Capital expenditure						
– through acquisition of subsidiaries	**–**	4	**–**	18,900	**–**	18,904
– other	**1,524**	9	**3,377**	4,866	**4,901**	4,875
Increase in fair value of investment property	**–**	700	**–**	–	**–**	700

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**	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Turnover	**108,756**	38,624	**666,288**	392,413	**775,044**	431,037
Other segment information:						
Segment assets	**259,148**	234,110	**455,949**	321,075	**715,097**	555,185
Capital expenditure						
– through acquisition of subsidiaries	**–**	4	**–**	18,900	**–**	18,904
– others	**1,524**	–	**3,377**	4,875	**4,901**	4,875

3. 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 operations, 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	
	2007	2006
	HK$'000	*HK$'000*
Turnover		
Supermarket chain operations	**666,288**	392,413
Sales of trading securities	**108,724**	38,448
Gross rental income from investment property	**32**	176
	775,044	431,037
Other revenue		
Bank interest income	**5,605**	4,237
Loan interest income	**2,691**	6,265
Total interest income on financial assets not at fair value through profit or loss	**8,296**	10,502
Gain on disposal of a subsidiary	**–**	7
Gain on disposal of share options	**1,686**	476
Dividend income from unlisted investments	**206**	847
Reversal of impairment loss on receivables	**–**	2,519
Write-back of other payables	**3,493**	6,897
Income from government subsidies	**999**	–
Reversal of share-based payment	**334**	–
Exchange gain, net	**24**	–
Gain on disposal of property, plant and equipment	**985**	37
Gross rental income from leasing of shop premises	**16,589**	11,393
Promotion and store display income from suppliers	**65,396**	39,949
Others	**4,548**	1,419
	102,556	74,046

4. PROFIT FROM OPERATIONS

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

	2007	2006
	HK$'000	*HK$'000*
Depreciation	**15,542**	10,541
Amortisation of land lease premium	**23**	44
Amortisation of intangible assets	**2,352**	784
Operating lease payments – land and buildings	**33,666**	21,894
Auditor's remuneration	**1,216**	918
Bad debts written off	**–**	1,815
Net foreign exchange (gain)/loss	**(24)**	–
Staff costs (including directors' remuneration):		
Salaries, allowances and other benefits	**35,370**	25,909
Pension scheme contribution	**1,007**	666
Severance payment	**–**	1,739
Share-based payment expenses	**1,342**	–
	37,719	28,314
Increase in fair value of investment property	**–**	(700)
Property, plant and equipment written off	**1,487**	1,711
Rental income from investment property less direct outgoings of HK$3,000 (2006: HK$1,000)	**(13)**	(22)
Unrealised loss on changes in fair value of financial assets	**3,175**	93
Gain on disposal of property, plant and equipment	**(985)**	(37)

5. FINANCE COSTS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Interest expense on bank loans, bank overdrafts and other loans repayable within five years	**5,521**	2,961
Interest on convertible note	**3,071**	2,496
Total interest expense on financial liabilities not at fair value through profit or loss	**8,592**	5,457

6. INCOME TAX

a) The taxation in the consolidated income statement represents:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
Provision for the year	**421**	–
PRC enterprise income tax		
Provision for the year	**1,495**	–
Over-provision in prior years	**–**	(2,391)
Tax charge/(credit) for the year	**1,916**	(2,391)

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

	2007	2006
	HK$'000	*HK$'000*
Profit/(loss) before taxation	**8,233**	(76)
Notional tax on loss before tax calculated at the rate applicable to loss in the tax jurisdiction concerned	**2,930**	(424)
Income not subject to taxation	**(874)**	(1,016)
Expenses not deductible for taxation purposes	**1,470**	1,555
Utilisation of tax losses previously not recognised	**(2,636)**	(1,817)
Deferred tax assets not recognised	**1,105**	1,650
Over-provision in prior years	**–**	(2,391)
Reversal of temporary difference	**(79)**	52
Tax charge/(credit)	**1,916**	(2,391)

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.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the tax rate for a subsidiary from 33% to 25% will be revised from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

b) Taxation in the consolidated balance sheet represents:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Balance b/f	**(85)**	(2,369)
Provision for the year		
– Hong Kong profits tax	**(421)**	–
– PRC enterprise income tax	**(1,495)**	–
Over-provision in prior years	**–**	2,391
Taxation paid	**1,337**	–
Exchange adjustment	**(5)**	(107)
Balance c/f	**(669)**	(85)

7. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2007 (2006: Nil).

8. EARNINGS PER SHARE

i) The calculation of basic earnings per share for the year is based on the net profit attributable to equity holders of the Company of HK$6,330,000 (2006: HK$2,316,000) and the weighted average number of 1,329,614,939 (2006: 1,015,877,336) shares in issue during the year.

ii) The diluted earnings per share for the year is calculated by dividing the net profit attributable to equity holders of the company of HK$6,330,000 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 calculation of basis and diluted earnings per share are based on:

	2007	2006
	HK$'000	*HK$'000*
Earnings		
Profit attributable to equity holders of the Company	**6,330**	2,316

	Number of Shares	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year	**1,329,614,939**	1,015,877,336
Effect of dilution – weighted average number of ordinary shares: Share options	**8,171,750**	22,228,296
	1,337,786,689	1,038,105,632

9. TRADE PAYABLES

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Outstanding balances with ages		
Due within 1 month or on demand	**80,062**	62,138
Due after 1 month but within 3 months	**87,798**	79,998
	167,860	142,136

10. OTHER INFORMATION

The consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2007 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor, CCIF CPA Limited. The unqualified auditor's report will be included in the Annual Report to shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

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

Turnover and Net Profit

During the year under review, the Group recorded turnover amounting to approximately HK$775,044,000 (2006: HK$431,037,000), representing an increase of 79.8% as compared to that of the previous year. The increase in turnover is mainly due to the steady growth in China's economy. Profit for the year attributable to equity holders of the Company was HK$6,330,000 (2006: HK$2,316,000), representing an increase of 173.3% as compared to that of the previous year. Earnings per share was HK0.476 cents (2006: HK0.228 cents). Selling and distribution expenses and administrative expenses for the year represented 5.4% and 15.5% of turnover respectively, as compared to 6.1% and 19.2% of last year.

Finance Costs

The Group' finance costs for 2007 were approximately HK$8,592,000 (2006: HK$5,457,000). The increase in finance costs was mainly due to the increase in share of finance cost of Hualian GMS.

Capital Structure, Liquidity and Financial Resources

As at 31 December 2007, the Group had non-current assets of approximately HK$106,502,000. The non-current assets were mainly comprised of property, plant and equipment of approximately HK$27,866,000, goodwill of approximately HK$13,493,000, intangible assets of approximately HK$55,664,000. The Group's current assets as at the same date mainly included cash and cash equivalents amounting to approximately HK$252,288,000, inventory of approximately HK$68,774,000, other receivables, deposits and prepayments amounting to approximately HK$186,448,000, marketable securities amounting to approximately HK$29,773,000 and loan and interest receivables amounting to approximately HK$64,350,000. The Group's current liabilities as at the same date mainly included trade payables of approximately HK$167,860,000, other payables and accrual of approximately HK$94,439,000 and bank borrowings of approximately HK$63,830,000. Current ratio, defined as current assets over current liabilities, was 1.86. During the year, ARC Capital Holdings Limited, the convertible note holder, converted the convertible note into 290,625,000 Company's ordinary shares and as a result, the gearing ratio, calculated on the basis of total borrowings over total equity, decreased to 16.5%. As at 31 December 2007, the Group's consolidated borrowings stood at approximately HK$63,830,000, all of which was Renminbi short term bank loans on fixed interest rate basis.

Fund-raising through Share Placement

In June and July 2007, the Group raised net proceeds of approximately HK$83 million by top up placement of 130,000,000 shares to Keywise Greater China Opportunities Master Fund and 86,000,000 shares to CITIC Capital Holdings Limited. The above fund-raising activities have provided the Company with present and future capital resources necessary for the development of the Company. As at 31 December 2007, the Group had consolidated cash and cash equivalents of approximately HK$252,288,000. The Board believes that these financial resources are adequate to meet the Group's ongoing operation and development needs.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2007. The Group may become involved in certain legal proceedings relating to claims arising out of operations in the normal course of business. However, none of these proceedings, individually or in aggregate, is expected to have a material adverse effect on the Group's financial situation or operational results.

Exposure to Foreign Exchange 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 2007, the impact on the Group's operations was minimal. During the year, the Group did not experience any material difficulty or negative effect on its operations or liquidity as a result of fluctuations in currency exchange rates. Accordingly, 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.

Human Resources Management

As at 31 December 2007, the Group employed approximately 5,000 full time staff in Mainland China and Hong Kong. Total staff costs (including directors' remuneration) for the year were approximately HK$37,719,000. Competitive remuneration packages are structured to be commensurated with individual responsibilities, job duties, experience, performance and prevailing industry practice, and are regularly reviewed by the management. In addition, allowances and performance bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance and medical coverage as well as share option scheme.

Material Acquisition and Disposals

On 28 November 2007, K.P.I. (BVI) Retail Management Company Limited, a wholly owned subsidiary of the Company, entered into a sales and purchase agreement to purchase the entire issued share capital of Bestjoy International Limited, which is the registered owner of a 20% equity interest in Hualian GMS. The acquisition was completed on 28 January 2008. Further details of the acquisition were set out in the Company's circular dated 31 December 2007 to its shareholders in connection with the acquisition. On 16 July 2007, the Group disposed of its investment property 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 at a consideration of HK$14,280,000.

Business Review

In retail business, the Group operates a hypermarket chain Hualian GMS in Shanghai and nearby provinces. Currently there are about 170 hypermarket outlets in Shanghai. Competition is keen and consumer demand is increasingly complex. Consumers are no longer pursuing only price level, but rather on product quality, shopping environment and personal touch. It is important for Hualian GMS to build up an image of a distinguished retail chain via enhanced service and store format innovation, and improved merchandise mix by adding more fashionable and higher end products. Hualian GMS offers a range of goods including both brand name and own label products and provides customers with the very best value for money.

Starting from 2006, Hualian GMS has been implementing a three-year plan to renovate its outlets. The design of the store has been going through a complete overhaul and revamped stores have taken a new look with a contemporary ambience for shoppers. As a result of these efforts, a newly renovated store recorded a 20% increase in turnover on a year to year basis as compared with the same period last year. The Company formed a strategic alliance with the current business partner, Lianhua Group, leveraging the purchasing power of Lianhua OK Card（聯華OK會員卡）members. During the year, customer spending by using Lianhua OK membership card and GMS membership card accounted for approximately 23% of total turnover.

As at 31 December 2007, Hualian GMS had 18 outlets. One outlet located in Shenyang was closed down. The number of outlets of Hualian GMS will be increased steadily, mainly in Shanghai, to further expand market coverage and bargaining power in the city. The recent enactment of Labour Law has undoubtedly led to a rise in staff cost. We are placing more emphasis on staff training, development and reward mechanisms in order to attract and retain talented staff. The success of Hualian GMS could not have been achieved without the enthusiasm, hard work and dedication of our people.

Future Outlook and Prospects

Although the Group believes that competition in the PRC retail business is still intense, the overall purchasing power of general consumers is growing rapidly. There are lucrative opportunities arising from the booming economy in the PRC and the escalating growth in retail business. Leveraging on experience and wisdom from its many years of involvement in PRC business, the Group has laid down a solid foundation to emerge as one of the leading retail operators in the PRC. The Group will continue to impose stringent cost control and more precise budgeting to strengthen its financial situation. It is expected that the profitability of Hualian GMS will gradually improve. In the coming years, the Group will aim at upgrading overall operating efficiency and devoting more resources in the Mainland consumer market. The year 2008 is going to be a year of opportunities and challenges. The Group will make every endeavour to ensure market value enhancement.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company believes that good corporate governance practices are increasingly important for maintaining and promoting shareholder value and investor confidence.

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, A.4.2 and B.1.1.

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 currently holds the offices of 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.

The Company will continue to review the effectiveness of the Group's corporate governance structure and consider whether any changes, including the separation of the roles of Chairman and Chief Executive Officer, are necessary.

In accordance with the Company's Articles of Association, 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.

Mr Tsang Kwok Wai, having been appointed as independent non-executive director of the Company during the year, should retire and being eligible, offer himself for re-election at the first general meeting pursuant to the Company's Articles of Association. As he has not been re-elected at the first general meeting, this constitutes a deviation of Code A.4.2.

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 2007, 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.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE OF THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own Code of Conduct, which laid down terms no less exacting than those set out in 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 for Securities Transactions by Directors of Listed Issuers throughout the year ended 31 December 2007.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company, which comprises all independent non-executive directors, has reviewed the consolidated financial statements of the Group for the year, including the accounting principles and accounting standards adopted by the Company, and discussed matters relating to auditing, internal controls and financial reporting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 22 May 2008 to Wednesday, 28 May 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Tengis Limited of 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Wednesday, 21 May 2008.

SCOPE OF WORK OF CCIF CPA LIMITED

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2007 as set out in the preliminary announcement have been agreed by the Group's auditor, CCIF CPA Limited, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by CCIF CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by CCIF CPA Limited on the preliminary announcement.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

This announcement will be published on the Stock Exchange's website and the Company's website (www.kpi.com.hk). The 2007 Annual Report will also be published on the Stock Exchange's website and the Company's website and will be despatched to the shareholders of the Company.

ACKNOWLEDGEMENT

The Board would like to take this opportunity to express our sincere thanks to all stakeholders for their supports during the year.

On behalf of the Board
K.P.I. Company Limited
Cheung Siu Lam
Chairman and CEO

Hong Kong, 22 April 2008

As at the date of this announcement, the Board comprises Mr Cheung Siu Lam (Chairman), Mr Chan Yuk Ming (Vice-chairman) and Ms Lo Wan as executive directors, Mr Liu Hui as non-executive director, Mr Chan Chun Keung, Mr Wang Jian Sheng and Mr Tsang Kwok Wai as independent non-executive directors.